The Economist

20010818

PRINT EDITION

Full contents
Enlarge current cover
Past issues/regional covers
Subscribe

GLOBAL AGENDA
POLITICS THIS WEEK
BUSINESS THIS WEEK
OPINION
Leaders
Letters

WORLD
United States
The Americas
Asia
Middle East & Africa
Europe
Britain
Country Briefings
Cities Guide

SURVEYS

BUSINESS
Management Reading
Business Education
Executive Dialogue

FINANCE & ECONOMICS
Economics Focus
Economics A-Z

SCIENCE & TECHNOLOGY
Technology Quarterly

PEOPLE
Obituary

BOOKS & ARTS
Style Guide

MARKETS & DATA
Weekly Indicators
Currencies
Big Mac Index

DIVERSIONS

RESEARCH TOOLS

CLASSIFIEDS

DELIVERY OPTIONS
E-mail Newsletters
Mobile Edition
RSS Feeds

ONLINE FEATURES
Cities Guide Go
Country Briefings Go
Audio interviews Go
Classifieds Go

The Economist Group
Economist Intelligence Unit
Economist Conferences
The World In
Intelligent Life
CFO
Roll Call
European Voice
EuroFinance Conferences
Economist Diaries and Business Gifts

Print Edition August 18th 2001

The politics of human rights

Does it help to think of poverty or inadequate health care as violations of basic rights? ... More on this week's lead article

Previous print editions
Aug 11th 2001
Aug 4th 2001
Jul 28th 2001
Jul 21st 2001
Jul 14th 2001
More print editions and covers »

Subscribe
Subscribe to the print edition
Or buy a Web subscription for full access online
RSS feeds
Receive this page by RSS feed

The world this week

Politics this week
Business this week

Leaders

The politics of human rights

Israel and the Palestinians
Into the dark

NATO and Macedonia
Once more unto the breach

Broadcasting
Liberate the BBC

Alliances
Just good friends

Letters

On Bjorn Lomborg, Venezuela, Gibraltar, American politics, Bertrand Russell and the bomb

Special Report

Human rights
Righting wrongs

United States

The leadership of black America
Time to pass on the torch

Peacekeeping and war
No, they're not incompatible

A fading state
Fare thee well, Iowa

Amish farming
Go organic, young man

America the contemplative
It's Buddha's turn

Lexington
Leon Kass, philosopher-politician

The Americas

Argentina's economic crisis
Dreading the cure

South American integration
Sparks fly in a lost world

Chile's defence policy
Retooling

Security in Brazil
Bullet-proof in Alphaville

Asia

India
How Hindu an India?

Pakistan
Power games

Water in China
In deep

Japan
Harder times for Koizumi

East Asian economies
To spend or not to spend?

International

The Palestinians

Business

American manufacturers and the dollar
A bunch of cry-babies?

Business schools
Tyson's London corner

Motorola and Nokia in Turkey
Facing down the Uzan clan

Executive pay-offs
Money for nothing?

European telecoms
Running for the exit

Pharmaceuticals
Bayer beware

Renault's alliance with Nissan
Halfway down a long road

Face value
The physics of shopping

Special Report

Special report
Hands in their pockets

Finance & Economics

Accounting
Shining a light on company accounts

The Bank of Japan loosens policy
Changing tack

Deutsche Telekom enraged
Storm in a telephone booth

Job losses on Wall Street
Wielding the axe

World economy
Nowhere to hide

A novel use for options theory
Fishy maths

Economics focus
Europe's scrap-heap

Science & Technology

Stem cells
Potential for good?

Creutzfeldt-Jakob disease
Hopes of a cure

Books & Arts

Mediterranean archaeology
Butrint preserved

Books in brief
Secrets of the sea

History of ideas
Meeting in the middle

Cultural radicals
Drinking deep

Philip Glass
Not all ravens are white

Advertisement

The several voices of Palestinian authority

Israel's peace camp
The forgotten ones

Zimbabwe
A storm worsens

Angola
UNITA—down but not out

Corruption in Kenya
Moi at bay

Europe

War or peace in Macedonia
Will the doves really fly?

Hyphenated Macedonians
Slav, or not?

Russia's sunken submarine
Deep-sea fudge

Poland's coming election
The end of Solidarity

Turkey's generals and its civilians
Blast and counterblast

Eastern Germany's politics and economy
Look what I found in my suitcase

Charlemagne
Christopher Patten

Britain

The BBC
Outgrowing Auntie

Asylum policy
Bedlam

Northern Ireland
Working holiday?

Jews and Muslims
Peace comes to Stamford Hill

The Shetland Islands
Lonely but rich

Lottery projects
Showbiz meets science

Private pensions
Save, or else

Road safety
More cameras, less speed

Literary criticism
Writing with nerves

Obituary

Jim Corbett

Economic and Financial Indicators

Overview

Output, demand and jobs

Prices and wages

Australia

Money and interest rates

The Economist commodity price index

Stockmarkets

Trade, exchange rates and budgets

The Economist metals index

Emerging-Market Indicators

Overview

Business environment

Economy

Financial markets

Articles flagged with this icon are printed only in the British edition of *The Economist*

Advertisement

Classifieds

Jobs
Asst/Assoc/Professor of National Security Strategy
The National War College, Washington, D.C. Seeking two f....

Tenders
Invitation for Prequalification
Hashemite Kingdom of Jordan Ministry of Finance for Supply and Implementation ....

Jobs
Research Professorship in Finance
Tanaka Business School and Director of the Paul Woolley Centre Imperi....

Tenders
Expression of Interest - Management Audit
Expression of Interest Management Audit Consultation Company The Tim....

Jobs
Senior Forest Policy and Politics Position
August 30, 2006 Yale University's School of Forestry & Environm....

Tenders
Economic Advice to the European Commission (EC) Delegation Kigali, Rwanda
Economic Advice to the European Comm....

Sponsors' feature

About sponsorship »

Copyright © The Economist Newspaper Limited 2006. All rights reserved. Advertising Info | Legal disclaimer | Accessibility | Privacy policy | Terms & Conditions | Help

Produced by = ECO PDF TEAM =
Thanks xxmama

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Politics this week

Aug 16th 2001
From The Economist print edition

Political suicide

Israel's main retaliation against an onslaught of suicide bombs was political: it closed **Orient House**, the Palestinians' de facto headquarters in East Jerusalem. It also briefly sent tanks into Jenin, threatened Beit Jalla and assassinated a Fatah fighter.

See article: The several voices of Palestinian authority

In **Macedonia** political parties of the rival ethnic groups signed a NATO-inspired peace accord that promises ethnic Albanians something closer to equality in the state. Ethnic-Albanian rebels promised to hand over their weapons, to be collected, under the deal, by a NATO force. NATO decided to send an advance group of 400 soldiers even though its conditions for sending the full force—including a durable ceasefire—had not yet been met.

See article: Once more unto the breach

Japan's prime minister, Junichiro Koizumi, angered China and other countries it fought in the second world war by visiting the **Yasukuni shrine** for the war dead, including some condemned as war criminals.

See article: Harder times for Koizumi

Reuters

No farewell to arms

The British government suspended political institutions in **Northern Ireland**, after Unionists there refused to accept the IRA's talk of a “scheme”—no details, no date—for weapons-decommissioning as a substitute for action. The IRA promptly withdrew its scheme.

See article: Working holiday?

Three suspected members of the IRA were arrested in Bogota. Colombian army chiefs said that they had been giving **bomb-making courses** to the FARC guerrillas.

See article: Working holiday?

While Spain's central and Basque-region politicians swapped insults over the regional police force's willingness to fight **ETA** terrorists, ETA supporters publicly commemorated four of them blown up by their own bomb a year ago.

In **Turkey**, one of the country's most popular politicians, Tayyib Erdogan, a former mayor of Istanbul, set up a new Islamic party. Meanwhile, civilians are openly questioning the political role of the armed forces, determined enemies of religious influence in politics.

See article: Blast and counterblast

Bombed in Saudi

On Saudi Arabian television, three more Britons confessed to carrying out **bomb attacks**. The incidents are all thought to be connected with the illegal trade in alcohol.

For his second term, **Iran**'s president, Muhammad Khatami, disappointed reformists by largely reappointing his old cabinet of moderate loyalists.

Reuters

American and British aircraft twice attacked anti-aircraft sites in southern **Iraq**. Syria's prime minister paid a ground-breaking three-day visit to Baghdad.

Divided over Kashmir

The Indian prime minister, Atal Behari Vajpayee, marked independence day by blaming Pakistan for wrecking relations between the two countries and “believing it can gain **Kashmir** through terrorism”.

Pakistan's President Pervez Musharraf promised a general election for October 2002, but it looked likely that the country would stay under military control.

See article: Power games

China suspended *Seeking Truth*, a leftist magazine that attacked a decision to allow capitalists to join the Communist Party.

Conduct unbecoming

Congressman Gary Condit rejected calls for his resignation by two Californian newspapers over his “abhorrent” conduct in the case of a **missing intern**, Chandra Levy.

State governments expressed concern that federal legislation on **patients' rights** would offer less protection to consumers than state laws already in place.

A Justice Department report on the Los Alamos **spy inquiry** said that the FBI's investigation was deeply flawed from the beginning, had looked into the wrong crime and had ignored some possible suspects.

A United States federal judge ruled that controversial snapshots of **Barbie**, an iconic plastic doll, were protected by the photographer's free-speech rights. Mattel, which makes the dolls, plans to appeal.

Cuba's Fidel Castro watched as Presidents Fernando Henrique Cardoso of **Brazil** and Hugo Chavez of **Venezuela** inaugurated a 680km (425-mile) electricity-transmission line linking their two countries.

Reuters

Corruption rules

Kenya's parliament threw out an anti-corruption bill despite a first-time visit from the president, Daniel arap Moi, to encourage it through. Rejecting the bill puts in doubt millions of dollars in aid. Opponents argued that the bill was not tough enough.

See article: Moi at bay

As the situation in **Zimbabwe** worsened, the Southern Africa Development Community took away the chairmanship of its defence committee from Robert Mugabe and said they were worried about the "spillover effect" of the troubles there. Attacks continued on around 100 white-owned farms. Four journalists from the main independent newspaper were arrested but released by a court.

See article: A storm worsens

A triumph for family values: under pressure from the pope himself, **Archbishop Emmanuel Milingo**, from Zambia, agreed in Rome to abandon his South Korean wife, married in a Moonie ceremony in May, and "return to the church". I'm pregnant, he's been drugged, said she.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Business this week

Aug 16th 2001
From The Economist print edition

Rise and shine

The **Bank of Japan** took surprise measures to give the faltering economy a much- needed boost by easing monetary policy. The move met with approval: the Nikkei 225 index flew up by nearly 4% in a day. Revised figures showed that Japan's GDP rose slightly in the first quarter of the year instead of falling.

See article: Changing tack

The **euro** hit a five-month high, rising above 90 cents against the dollar. The IMF gave a warning that America's current-account deficit was unsustainable and that the dollar was likely to weaken further. The dollar also slid against the yen.

America's economy suffered. Industrial production fell for the tenth month in a row to end 3.2% down in the year to July. **Germany's economy** is also in trouble. The Bundesbank estimated that GDP was flat in the second quarter.

See article: Nowhere to hide

Loan agreement?

After several days of talks, officials from **Argentina** were reportedly close to an agreement with the IMF over a new loan aimed at calming continued fears of a debt default or devaluation.

See article: Dreading the cure

Meanwhile, **Brazil** slipped towards recession. Its economy shrank by nearly 1% in the second quarter compared with the first.

German fall-out

The relationship between **Deutsche Bank** and **Deutsche Telekom** became frosty after the bank disposed of shares in the telecoms giant worth around *euro*1 billion ($880m) on behalf of an unnamed seller. Coincidentally, Deutsche Bank issued a research report, which recommended purchasing Deutsche Telekom shares around the time of the sale.

See article: Storm in a telephone booth

Morgan Grenfell's name looked likely to disappear after 163 years in investment banking. Deutsche Bank, which acquired Morgan Grenfell some 12 years ago, intends to fold Morgan Grenfell Private Equity into its own private equity division, DB Capital Partners.

Bayer, a German drug company, said that it was considering a co-operative venture for its drug business with a larger pharmaceutical company; a sell-off could follow. It had previously announced the withdrawal of an anti-cholesterol

treatment. That will wipe up to $650m ($590m) off full-year profit and result in the loss of 5,000 jobs.

See article: Bayer beware

Profits fell at **UBS** by 26% in the latest quarter compared with a year ago. Shares in Switzerland's biggest bank rose; profits had been expected to fall further. Citigroup, the world's biggest financial conglomerate, said that it would cut 3,500 jobs over the coming year to bolster slowing profits.

The **IMF** and the **World Bank** decided to shorten to two days September's annual meeting in Washington, DC, fearing a repeat of the violence witnessed at a recent G8 summit in Genoa. Anti-globalisation protesters claimed a victory in the fight against global capitalism but said that they would turn up and protest anyway.

Low flying

US Airways became the latest airline to reveal that it was suffering from the economic downturn and the decline in business travel. It issued a profit warning, saying that losses for the next quarter will exceed $160m.

Out of office

Blue-chip companies were glum on both sides of the Atlantic. Continued huge losses and an ever-dwindling share price persuaded Mark Schneider to quit as chairman and chief executive of **UPC**, a Dutch cable firm. **Enron**, the world's largest energy trader, lost its president and chief executive, Jeffrey Skilling. He quit the American power giant for personal reasons after just six months in the job.

Some executives who were “let go” recently had cause for celebration. Michael Bonsignore, former chief executive at **Honeywell International**, will receive $9m as a separation payment, as well as a variety of perks including executive travel (but not use of the office jet).

Lucent Technologies, a struggling telecoms-equipment company, agreed to pay Richard McGinn, its former chairman and chief executive, a package worth $13m for barely three years' service. Deborah Hopkins, a former chief financial officer, will get near $5m.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

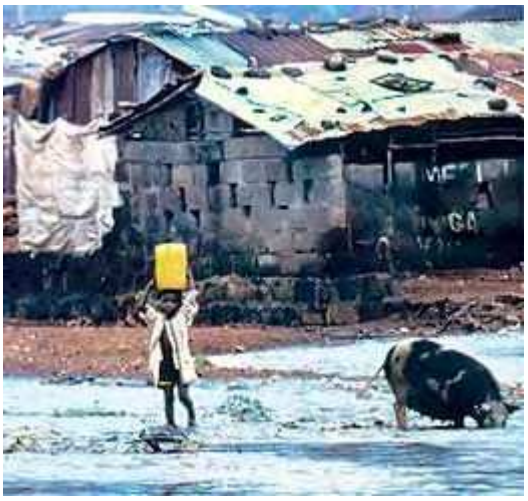
PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The politics of human rights

Aug 16th 2001
From The Economist print edition

Does it help to think of poverty or inadequate health care as violations of basic rights?



"NONSENSE upon stilts"—this was Jeremy Bentham's assessment of the French revolutionaries' Declaration of the Rights of Man and of the Citizen, which deemed that all people had certain natural and unalterable rights. Bentham felt that rights were man-made, and could not spring from mere assertions of principle. As he put it, "Right...is the child of law; from real laws come real rights; from imaginary laws, from laws of nature, fancied and invented by poets, rhetoricians, and dealers in moral and intellectual poisons, come imaginary rights, a bastard brood of monsters."

After the second world war, members of the United Nations produced two successors to the French declaration. The first, the International Covenant on Civil and Political Rights, might have met with Bentham's approval. The rights listed in it, such as the right to vote, the right not to be tortured, and the right to free speech, found wide support in real laws, at the national and the international level. The second, the International Covenant on Economic, Social and Cultural Rights, asserted that all humans have the rights to health, food and employment. This looks the sort of bastard brood that would put Bentham in a pickle, were he not so already. Lacking anything approaching universal legal support, these "rights" are routinely violated in all corners of the world.

But that is exactly why such rights, without the inverted commas, need to be moved further up the world's political agenda—or so, increasingly, it is argued. Up to now, claims to such rights have received short shrift from governments and lobbyists. Human-rights groups who campaign against violations of civil and political rights have often ignored the economic and social kind. Today, some of these organisations are thinking about bringing rights to food, health care and fair wages into their remit. The policy-making body of Amnesty International, the largest and most important of these groups, is meeting in Dakar to decide if it should expand its mandate (see article). Does it make sense to accord the status of rights to demands of this sort?

Ought implies can

Philosophically, and with all due respect to Bentham, it is difficult to make clear-cut distinctions between the traditional "first-generation" rights and the newer "second-generation" variety. The idea that only first-generation rights lend themselves to legal codification is wrong. Certainly, they lend themselves to it far more easily, because the adjudications they require are simpler. But in many countries, the reach of national law has already extended far into the social and economic realm. So the question is not whether it is possible to expand the concept of human rights but whether it makes sense to, especially in the developing countries where these new rights either do not exist or are widely ignored.

A few other broad-brush distinctions also get fuzzy when you examine them more closely. First-generation rights are said to be "negative liberties" (freedoms from, rather than freedoms to). Negative liberties, since they call for acts of omission rather than commission, tend to be cheap to protect, and also have the handy property that they cannot clash with each other: nobody is ever forced to choose between not being a torturer and not being a slave-owner. In contrast, it is argued, "positive liberties", such as the right to health care, may be very expensive to provide, and governments will often have to choose to recognise some and ignore others simply as a matter of economic necessity.

There is a lot of truth in all that, but again the issue is not as clear-cut as one would wish. The right to vote, a first-generation right, is a positive liberty not a negative one, and it costs something to honour. There are fiscal limits to the protection of negative liberties just as there are to the protection of positive ones (think of the cost of national defence, or of the police and criminal-justice systems). And arguments that deem any given positive liberty too expensive to protect are really saying, in part, that the property rights recognised in the existing distribution of income must take priority over any new rights. Perhaps they should take priority—but advocates of the new rights are at least entitled to ask, on what grounds?

Perils of inflation

The simplest and most telling arguments against the adoption of universal economic and social rights are not philosophical, but practical. The new rights will have to be defined in the vaguest, most general terms if they are to be plausibly universal in scope. These rights will either mean nothing, if they are regarded only as empty platitudes; or, if the intention is to move from stating rights to enforcing laws, they will be constitutionally dangerous. Vague laws would invite, and indeed require, courts rather than governments to settle arguments about social justice. Advocates may not mind this: the courts, they imagine, will give them an extra lever to use in pushing policy in their desired direction. But they must recognise that in practice this amounts to subordinating the popular will to the rule, not of law, but of judges. A further risk, in practice, is that trade and other international agreements may be framed (not always disinterestedly) to punish countries that violate the new rights—leaving the people whose rights have been violated even poorer than they were to begin with.

Lastly, there is the question of tactics. Amnesty International, especially, owes much of its moral authority to its defence of freedoms that are recognised across nearly all of the ideological spectrum, a stance that has lifted the organisation above the ordinary political fray. This would have to change: arguments over social and economic policy are the very stuff of party politics. Rather than investing demands for social reform with the moral authority of their campaign for basic liberties, as they may hope to, human-rights watchdogs run the risk of doing the opposite: tainting their defence of basic liberties with an overtly political platform on social and economic policy. That would be a pity. Alas, there will be enough injustice of the traditional sort to keep the watchdogs usefully employed for many years yet.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com OPINION LEADERS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Israel and the Palestinians

Into the dark

Aug 16th 2001
From The Economist print edition

Blocking hope of an Israeli-Palestinian settlement could have awful consequences

Get article background

Reuters

HOPELESSNESS and horror are near neighbours, the one engendering the other. Unhappily, Israel's long-term strategic response to last week's bloody business, when 15 people at a Jerusalem pizza restaurant were blown up by a suicide-bomber, may have opened the way for more such horrors by extinguishing the hope of an eventual decent and peaceful arrangement.

Facing an onslaught of suicide-bombers (there was a less awful incident in a Haifa café this week, other attempts have been foiled and more are promised), the Israeli government can present good reasons for its tactical responses, including a tank incursion into Palestinian-controlled territory. But the seizure and closure of Orient House in East Jerusalem is of a different order. It carries an all-important message, embodied in the heart of the current Israeli government's policy: the Palestinians must abandon all prospect of a political settlement even roughly along the lines of the one they were negotiating last year with the previous government.

Orient House, an Ottoman building, is doubly symbolic both to the Palestinians and to the wider Arab world. Its choice as the Palestinian delegation's headquarters ten years ago, when Israel and its Arab neighbours boldly embarked on the Madrid peace conference, made it an emblem of the longed-for turn from war to peace. At the same time, its geography kept alive the dream that East Jerusalem, or some of it, would be an integral part of a future Palestinian state. Through “understandings” with successive, and often reluctant, Israeli governments, it became a hub of Palestinian political activity. The late Faisal Husseini, whose family owns the land it stands on, was the benign king of a castle that was packed with political and welfare offices, plus visiting foreigners: it was too open for the sinister goings-on that Israelis now hint at.

Except, that is, to an Israeli prime minister who sincerely holds that any concession to Palestinian national sentiment is sinister. On the political front, Ariel Sharon's single-minded and remarkably consistent policy is to block the measures that might once have pointed the way to an agreed settlement. He has, for instance, started populating the empty slice of Israel near Gaza that had been earmarked as a possible swap in a territorial agreement. The closure of Orient House, planned well in advance, was Mr Sharon's sensational way of blocking all of Jerusalem, east and west, from Arab sovereign aspirations.

How much does that matter? After all, in the current ever-widening cycle of violence, the possibility of a lasting political settlement is fast receding in the direction of never-never land. The overriding aim in these vile Middle Eastern times is an end to the killing, a genuine ceasefire, rather than the once blessed prospect of a sustainable peace.

The two aims may be distinct, but approaching them in isolation is a path to disaster. Israel has all the means at its disposal, but brute force alone is unlikely to bring this particular war of attrition to an end. From Mr Sharon's perspective, the extinguishing of false Palestinian hopes is realism: the occupied people have to learn to accept the imposition of his new conditions. But punished by the Israelis, let down by their own leaders, the Palestinians are getting to the dangerous state of believing they have nothing to hope for and little to lose; they are close to accepting the militants' creed that if they, as a people, have to suffer, let the Israelis suffer too. Their land, unlit by hope, is darkened by despair, and

the vengeance for blood.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

NATO and Macedonia

Once more unto the breach

Aug 16th 2001
From The Economist print edition

No time for cold feet as NATO prepares to intervene in Macedonia

EPA

Get article background

IT ALL sounds troublingly familiar. For the fourth time in a decade, a multinational military force is preparing to intervene in a Balkan hot spot, amid high-minded rhetoric about staunching the flow of blood and creating conditions in which the region's future can at last be settled peacefully.

This time the war zone is Macedonia, and the force of some 3,500 soldiers is a NATO-led, British-dominated coalition of a dozen nations. Its task is to relieve an ethnic-Albanian rebel force of weapons that they have agreed to surrender in return for an amnesty, part of a peace deal signed this week with the Macedonian government (see article). NATO insists the job will last only a month—though all past experience in the Balkans suggests that the task it is about to take on will turn out to be neither that simple, nor that short.

If the going does get tougher for NATO, that will come as rude shock to most of its citizens. Their governments have told them remarkably little about this latest outbreak of the Balkan disease—or about its potential to re-poison the entire region with a deadly mixture of ethnic hatred and opportunistic violence. They have instead played down the gravity of the situation, and hence the difficulty of NATO's task. That may yet prove to have been a mistake. The stakes in Macedonia are ominously high.

If the operation does succeed, NATO governments will have learned the most important lesson from past Balkan mis-steps. For once, they will have quashed violence at a relatively early stage, before it takes on truly horrific dimensions—as happened in Croatia, Bosnia and Kosovo. The fighting so far between Macedonia's Slav majority and the ethnic-Albanian rebels has been bad enough—at least 200 people have been killed and 100,000 displaced. But it is easy to imagine things getting much worse if the fighting is left unchecked. Indeed, the consequences of failure look horribly painful: not just for the country itself, but for the credibility of western institutions, and the values they proclaim.

Lessons applied

What is the best way, then, to maximise the chance of success? After 200,000 or more deaths, and the displacement of at least 2m people, surely the outside world has learned how best it can bolster the cause of peace in the Balkans.

Perhaps it has. At any rate, another important lesson to be heeded as NATO embarks on its new mission is the need to preserve unity of command and clarity of purpose. Although history has not yet delivered its final verdict, the hapless UN operation in Bosnia—in which a loosely co-ordinated, lightly armed force was pig-in-the-middle of an unresolved war—has often been cited as an example of how not to do things. Ever since then, it has been accepted that "peacekeeping" can be worse than useless in situations where there is no peace to keep; and that lesson applies no less to Macedonia than it does to Bosnia. The UN in Bosnia was especially plagued by back-biting and buck-passing between the nations involved—each of which had its own agenda. Worst of all, there were no clear lines of responsibility when things

"Peacekeeping" can be worse than useless in situations where there is no peace to keep

went wrong.

With its more recent missions in Bosnia and Kosovo, NATO has already demonstrated that the Atlantic alliance is a more efficient instrument for co-ordinating military coalitions. Yet even NATO is not completely free of the tendency of member nations to make up their rules in the districts they police. And in past NATO missions, the mere presence of an American contingent sent a powerful signal to all parties that no element in the force could be challenged with impunity. The operation in Macedonia will go ahead without the front-line participation of the United States, but it will need America's logistical back-up—and unconditional support.

The combined efforts of the world's most powerful armies ought to be enough to bring stability to one small, poor Balkan country. Even so, no one can promise the mission will be casualty-free. The real test of NATO's resolve comes not with this week's peace agreement, but with the first sign of real trouble. It would be a disaster for the alliance if any of the countries involved pulls out when the going gets tougher.

That is why the governments who are about to send soldiers to Macedonia ought to have done a better job of explaining to their citizens how violence in this corner of south-eastern Europe has the potential to engulf the entire region. But there is an upside too: if NATO leaders can arrest Macedonia's slide towards disaster, they will have done far better than those who dealt with the Balkans in the 1990s.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

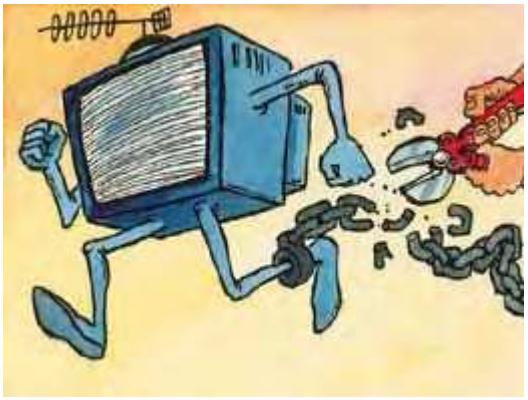
Broadcasting

Liberate the BBC

Aug 16th 2001
From The Economist print edition

Let the BBC expand—but privatise it first

Get article background



"BETRAYAL and surrender," thundered John Reith, the BBC's first director-general, when, as a member of the House of Lords in 1952, he tried in vain to defend the BBC's broadcasting monopoly. Half a century on, the BBC is still fighting, and losing, the battle against the growth of commercial TV. Today, 44% of British households pay to have scores of channels delivered to their living-rooms; over two-thirds of them will do so in five years' time. Struggling to regain ground, the BBC has applied for licences to operate four new digital TV channels and five new radio ones. Yet, in arguing the case for further expanding public-service broadcasting, the BBC is exposing the contradictions at the heart of its own operation.

The government is expected to announce at the end of August whether it will let the BBC go ahead. Tessa Jowell, the media minister, said recently that the BBC would need to demonstrate that its new services did "not duplicate what the commercial sector is doing". In other words, the government wisely considers its chief criterion for assessing the BBC's case to be whether the new channels address a market failure.

Can the BBC really make better children's programmes than commercial channels?

Three of the four new BBC channels are designed for young people: one for pre-school children, one for "pre-teens" and another for young adults. The fourth would provide a "forum for intellectual debate". Judging the case for the four new channels by the government's own standard, it is hard to argue that the first three will supply something that the market will not. The children's market alone is fiercely competitive in Britain, with 14 digital channels. Ah, the BBC will reply, we will make better children's programmes. Really? The existing output provides precious little evidence of that. And not all commercial children's channels carry wall-to-wall cartoons.

Even the argument for the fourth proposed channel is less than compelling. The sorts of cultural niches that this channel would occupy—the arts, sciences, history and philosophy—are increasingly inhabited by small commercial channels, such as Artsworld or The History Channel.

Yet, however hard it is to make a persuasive case for the BBC's new channels, it seems odder still to argue that Britain's biggest broadcaster should not try out good new ideas. The chief objection to the BBC doing so is that such operations would be financed by the licence fee, a heavy tax on television sets. Were the BBC a self-financing commercial organisation, there could be no objection to its launching as many channels as it fancied.

The idea that the BBC might go commercial alarms many people, both inside and outside the organisation. Yet the arguments for having a huge state-financed corporation dominate the broadcasting business were formulated in a different broadcasting era. Few hold today.

The BBC, goes one line, lures viewers to programmes that are good for them (documentaries, news) by scheduling them after the stuff they actually like (gameshows, soaps). But viewers today channel-hop the minute the credits roll. The BBC, goes another defence, provides more diversity and higher quality

than the commercial sector. As the BBC struggles to win back viewers, its offerings have become indistinguishable from the competition. The BBC, runs another line, binds Britons together with common cultural experiences, such as big sports events. That is out of date too. The BBC has now lost most sports rights to commercial TV.

The slimline option

What, then, to do with the BBC, with its huge production house, its six licence-fee funded TV channels and its 24,000 staff? As the argument for state finance weakens, so the case for selling it grows. Privatisation would not just save the public the £2.4 billion a year tax it pays for the licence fee, it would also free the BBC to expand as it wished.

Sell the BBC, then, and keep government out of television? Not quite. The good stuff on the pay-TV channels is available only to subscribers. Other viewers should still have access to the serious, thoughtful programmes which Britain's public-service ethos produces. But an elephantine, state-financed producer-and-broadcaster is not the only way to do this.

There is another model of public-service broadcasting which, oddly enough, already exists in Britain. It gets no state subsidy, aside from free bandwidth. Its sole shareholder is the government, so it re-invests all profits into programmes. It commissions entirely from independent producers. It is obliged to broadcast a share of quality and minority fare. It is free for viewers. It employs 934 people. It is called Channel 4.

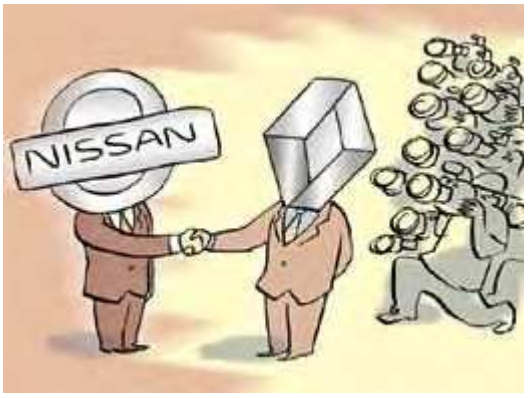
Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Alliances

Just good friends

Aug 16th 2001
From The Economist print edition

Not all alliances work as well as Renault-Nissan. But all need similar ingredients to succeed



A STRIKING feature of the business landscape in the past decade or so has been the apparent increase in the number of corporate alliances. Just as it is easier to count marriages than cohabitations, so it is easier to number mergers than alliances—but a study in the late 1990s by Booz-Allen & Hamilton, a consultancy, reckoned that alliances in the United States had grown by 25% a year over the preceding decade, and by more in Europe and Asia. Popular though alliances are, few are as spectacularly successful as that between France's Renault and Japan's Nissan, a triumph so exceptional that six books have already been written about it and another four, together with countless business-school case studies, are on the stocks (see article). Given the difficulties that car-industry acquisitions have had, managers might reasonably wonder whether alliances are a safer sort of partnership. The answer is that they are—and that they often have a different purpose; but they also require special skills to manage successfully.

Unlike mergers, alliances rarely lead to savings. So why are they so popular?

Unlike mergers, alliances rarely lead to savings. A merger can, at the least, guarantee the loss of one head office, but an alliance offers gains in revenue rather than cuts in costs. So why are they so popular? At a time of rapidly developing technologies, alliances provide a way to dip a toe in the water with minimum risk. Big pharmaceutical companies link up with small biotech businesses, and computer giants with software start-ups, in order to dabble in new markets and to tap into innovative thinking. In addition, alliances fit the current fashion for outsourcing: a company that retreats to its core competences needs plenty of partners to fill all the non-core roles such as (say) manufacture or distribution. And companies that want a global reach need local partners to enter foreign markets. In some industries—notably airlines—global alliances have another use: they allow companies some of the benefits of merging without having to negotiate regulatory barriers.

Not only have alliances grown more popular; they are also in some respects becoming easier to run. One of the less noticed effects of Internet-based technologies is the way they foster collaboration within and between companies, not just at the top but at every level. People in different time zones can share work, even if they never see each other and rarely talk on the telephone; and teams co-operating on projects can store information on a communal website. Communications of this sort are not foolproof—a few badly worded e-mails can trigger an unintentionally bitter war. But they are a big improvement on nothing at all.

Not another corporate dinner, please

To work well, though, alliances need more than nifty technology. They need trust, a clear sense of their goals and diplomatic leadership. Managing an alliance well calls for a different approach from getting a merger to work: note how Carlos Ghosn, the hero of the Renault-Nissan partnership, emphasises the need for each company to retain its sense of identity. Contrast that with the irritations at Daimler and Chrysler over the compromises that each (but especially Chrysler) has had to make. Even with sensitive handling, an alliance offers endless scope for suspicion and mistrust. That can be minimised partly by ensuring that each party feels that it gains roughly the same from the arrangement; and partly by lots of

personal contact among the partners. That means chomping through many trust-building lunches and dinners.

Watching Mr Ghosn's success, Daimler and Chrysler must wish that they had lived together for a few months before they tied the knot. However, plenty of alliances turn sour—think of the mess that AT&T and BT have made of Concert, their bid to provide cross-border services to multinationals. But alliances at least offer a way to press ahead and form a closer link, or to retreat gracefully. In the 1960s Sears, a giant American retailer, formed an alliance with France's Michelin, to market and distribute its tyres in the United States. The arrangement lasted for only a few years. Yet by the time it ended, Sears had learnt enough about automobile products to lay the foundations for a strong car-parts business; and Michelin had a solid foothold in the American tyre market. Even an alliance that ends is not necessarily an alliance that fails.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Letters

Aug 16th 2001
From The Economist print edition

The Economist, 25 St James's Street, London SW1A 1HG
FAX: 020 7839 2968 E-MAIL: letters@economist.com

Saving the planet?

SIR – Bjorn Lomborg (By invitation, August 4th) misses the main point of the environmental movement. It is not about something as simple as economics. Measuring conscience and guilt cannot be done in terms of money. Money is only a means of accomplishing an end. If that end is for the economy to grow as fast as possible and give all people maximal comfort then we are heading in the right direction. But is that not many times more expensive than saving the environment? The simplest means to this end would indeed be mass suicide for all humanity, at a calculated cost of about $3 billion dollars or less.

Nils Carlson
Kalix, Sweden

SIR – The exaggerated claims and publicity-grabbing activities of NGOs that Mr Lomborg decries have had the beneficial effect of mobilising public support and motivating politicians to put the environment on their agendas. Politicians do not act on reasoned arguments. It took media blitzes on environmental "dangers" to convince politicians that their political survival depended on what they could claim to have done to protect the environment. No cost-benefit analysis would ever have created America's Environmental Protection Agency.

David Goldblatt
Geneva

SIR – Part of what we have heard recently from the "optimistic" school is that population growth rates peaked in the 1960s and have been going down ever since. That does not mean that the problem has gone away. World population is twice what it was in 1960 and we are adding people faster than in the 1960s: 75m a year now, compared with 71m at the height of the "explosion". Most of this growth is among the poorest people in the poorest countries. The trend is gently downwards. Meanwhile, women are still getting pregnant more often than they want, and many are dying from pregnancy-related causes. HIV infection continues to spread. If complacency weakens efforts to promote family planning and responsible sexual behaviour, women will continue to die and fertility may well go up again.

Alex Marshall
United Nations Population Fund
New York

SIR – The IUCN-World Conservation Union produce the world's reference book on threatened species—the IUCN Red List—so you may well conclude that doom and gloom scenarios are our business. The opposite is true. But the facts in the Red List speak for themselves when not quoted selectively. At least 611 animal and 380 plant species have become extinct in the past 500 years. More than 5,400 animal species today face a high risk of extinction.

We believe this matters and so do millions of scientists and experts around the world. Mr Lomborg is right in cautioning against apocalyptic scenarios. But it is wrong to suggest that species extinction, climate change and pollution are imaginary environmental problems. His strategy for tackling climate change shows how thin the ice can be on which statisticians and economists move when saving the world with seemingly self-evident economic rationales.

Achim Steiner

Director-general, IUCN-World Conservation Union
Geneva

Chavez the democrat

SIR – You call President Hugo Chavez a civilian autocrat, *caudillo* and a recent threat to democracy ("The ardour cools", July 28th). But in a survey from Latinobarometro, we read that "Venezuelans' generally optimistic attitude owes much to the hopes they place in Hugo Chavez, a popular former paratrooper whose election as president in 1998 put an end to four decades of rule by two parties widely seen as corrupt and insensitive to poverty" ("An alarm call for Latin America's democrats", July 28th).

Since Mr Chavez took office in 1999, Venezuelans have participated in five electoral processes, two of which were the first referendums ever held in the country. Through these processes, which introduced profound political and institutional reforms, the citizenry has been reconnected to the political system. Venezuela has overcome the generalised cynicism, apathy and political weariness that plagued our democracy, through democratic processes and without a drop of blood being spilled. Hardly an authoritarian *caudillo* regime.

Alfredo Toro-Hardy
Venezuelan ambassador
London

On the Rock

SIR – Your article on Peter Caruana, Gibraltar's chief minister, advances hypotheses that are contrary to the impressions of the future that prevail in our community. The process of bilateral talks between Britain and Spain, born of the Brussels agreement of 1984, is not acceptable to most Gibraltarians, who are rightly convinced that it is designed to bring about an eventual transfer of sovereignty to Spain. Mr Caruana was elected only when he decried the agreement as "dead and buried".

You also reveal that Britain and Spain are set to sign an agreement in the autumn giving Spain " some say in the running of Gibraltar's airport". This is news to Gibraltarians, who are almost unanimously against such a deal. It is suspiciously coincidental with the date of the next round of Brussels talks, to which Mr Caruana is being lured. Inaccuracies—or privileged information from high-level diplomatic sources?

F. Picardo
Gibraltar

SIR – You call Gibraltar "the last disputed bit of land in Europe west of the Balkans." Not quite. There is Olivenca, 750 square kilometres of land which Spain grabbed during the Napoleonic wars but which Portugal rightfully insists is Portuguese.

Pedro Leite Fragoso
Lisbon

Demanding a recount

SIR – Your article on Dick Cheney (Lexington, July 23rd) suggests that Tom Ridge could help deliver 23 electoral college votes in 2004. Pennsylvania is losing two electoral votes and therefore will have only 21. You go on to say that Nelson Rockefeller served as vice-president for four years; two and a half years would be more accurate.

Barry Sweet
Clarion, Pennsylvania

Lawson's nuclear strike

SIR – We are getting there. Nicholas Griffin (Letters, August 11th) now concedes that, at his 1948 meeting at Westminster School, Bertrand Russell advocated an early pre-emptive strike against the Soviet Union, before the Russians acquired their own atomic bomb. But he adds that Russell made it clear that this drastic action should take place "if the present aggressive Russian policy was persisted in."

Mr Griffin insists, however, that Russell “obviously hoped” that this policy would not be persisted in. What in fact was “obvious”—and one of Russell's chief characteristics was his clarity—was that he expected that it would be, and was clear that we could not simply wait and see, as this would give the Russians time to acquire their own atomic bomb.

I was there when Russell spoke: Mr Griffin was not.

Lord Lawson
London

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com SPECIAL
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Human rights

Righting wrongs

Aug 16th 2001 | NEW YORK
From The Economist print edition

EPA

Human-rights campaigners are starting to lobby for economic and social rights, such as the right to health and the right to food. Will they make a success of it?

IN SHAW'S “Pygmalion”, Colonel Pickering asks Alfred Doolittle whether he has no morals. “Can't afford them, governor,” the philanderer replies; “Neither could you if you was as poor as me.” Morals are costly to maintain. So are rights, especially the kind of “universal human rights” that become enshrined in United Nations' declarations.

International support for a core group of human rights, mainly civil and political, has been enshrined for more than half a century in the Universal Declaration of Human Rights, ratified by the United Nations in the aftermath of the second world war and the Holocaust. The declaration proved compelling as a statement of principles, but too general and vague to be useful as a legal instrument. So, during the 1960s, two more covenants were thrashed out in an effort to give the declaration some substance: the International Covenant on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights.

During the cold war, enthusiasm for these covenants split along the obvious divide: capitalists were keen on civil and political rights, Communists on social and economic rights. When Western lobbyists accused the Soviet Union of violating its citizens' civil rights, the Soviet government replied that the economic and social rights of its people were more important. The division survives: today the Chinese make much the same argument.

In terms of publicity and promotion, the rights set out in the first covenant have had the benefit of human-rights advocates such as Amnesty International and Human Rights Watch (HRW). They have publicised the plight of prisoners of conscience and victims of torture. As a result, regimes that torture, unjustly imprison or disenfranchise their citizens have sometimes been pushed or shamed into changing their behaviour.

Until now, the second covenant has been used less widely to promote the rights that it enshrines—mainly to economic benefits such as housing, food, health care and fair wages. Now, though, Western human-rights groups, which have traditionally focused only on civil and political violations, are looking again at economic rights, and hope eventually to persuade governments to place the right to a house or a meal on an equal footing with the right to vote.

If this sounds foolish, human-rights veterans are used to scepticism. “Twenty-five years ago, when Amnesty started talking about torture victims, everyone thought we were ridiculous, out of our minds,”

says Larry Cox, the senior programme officer for human rights at the Ford Foundation. Few people then believed, he says, that mere letter-writing and lobbying could be such powerful weapons. But a great deal more manoeuvring and persuasion will be needed to give meaning to social and economic rights than to fight torturers and censors.

Not surprisingly, the big battalions among human-rights campaigners approach the issue with some trepidation. On August 16th, several hundred representatives of Amnesty International, the first and largest such group, met in Dakar, the capital of Senegal, to discuss changes to its mandate.

At the moment, Amnesty's campaigners battle in support of civil and political rights. They define their battleground with care, supporting only the rights of individuals. If a journalist is thrown into prison, Amnesty will launch a campaign on his or her behalf. If a government bans a newspaper, however, Amnesty will remain mute, because the action harms no single individual.

Over the past four years, Amnesty's main policy committee, the Standing Committee on the Mandate, has been developing a set of resolutions that would explicitly incorporate economic and social rights into Amnesty's mandate. These will be debated and put to the vote at the Dakar meeting. Amnesty's rules, oddly enough, prevent its officials from discussing their exact wording until after the vote. But, if adopted, the resolutions will alter the character of the organisation profoundly and permanently.

The Dakar votes could go either way. And much remains to be settled. For instance, Peter Pack, the standing committee's chairman, says the organisation could well end up with a position on economic and social rights that resembles its stance on civil and political rights: only certain abuses, under certain circumstances, would fall within Amnesty's remit.

However, the main question is whether such a change would reinvigorate Amnesty's mission or splinter it. Amnesty's letters, petitions and appeals have successfully chastised torturers and despots. Would their tactics be equally effective in the greyer worlds of health, housing, and labour policy? Amnesty's representatives are already fretting about the strains on the group's time, personnel and expertise. Expanding its mandate would mean extra work. Besides, Amnesty's success rests on the efforts of its members. If a sudden change in direction perplexes or annoys Amnesty's membership, the group's core competence may be damaged with few compensating gains.

Rights turn

Up to now Western human-rights campaigners have left economic and social concerns to humanitarians and philanthropists. When they have taken an interest in economic and social conditions, it has been merely to strengthen the case for political crusading. For example, Amartya Sen, a Nobel-prize-winning economist at Cambridge University, famously pointed out that “in the terrible history of famines in the world, no substantial famine has ever occurred in any independent and democratic country with a relatively free press”. HRW took this to heart, and asserts that “the best way to prevent famine today is to secure the right to free expression—so that misguided government policies can be brought to public attention and corrected before food shortages become acute.”

Now, campaigners increasingly question that view. Amnesty may be the most prominent human-rights group debating a shift of focus, but it is by no means alone. Since 1993, the charter of the Centre for Economic and Social Rights in Brooklyn, New York, has demanded that it “challenge economic injustice as a violation of international human rights law”. In its strategic plan for the next three years, Oxfam, Britain's leading overseas-development charity, lays out its belief in “rights to a sustainable livelihood, and the rights and capacities to participate in societies and make positive changes to people's lives”. The Ford Foundation's programme for human rights recently decided to finance a project to create a global network on the Internet that will provide an international directory of non-governmental organisations (NGOs) interested in economic, social and cultural rights, with a view to encouraging them to collaborate.

Reuters

United Nations' bodies are also keen to extend the concept. Since 1998, the World Health Organisation has been asking the international community to recognise health as a human right. In “A Human Rights Approach to TB,” a document issued in March, the WHO inelegantly points out the obligation of states to “provide some sort of redress that people know about and can access if they feel that their health-related rights have been impinged on”. And the UN Human Rights Commission recently stated that international trade law ought to be harmonised with international human-rights law.

Why, though, are human-rights bodies so keen to broaden their remit in this way? The short answer is that they have begun to wonder whether civil and political rights are not a bit beside the point in many of the world's poorest countries. In particular, the AIDS pandemic in Africa is driving the movement to demand that economic and social goods be treated as entitlements. Michael Ignatieff, the director of the Carr Centre of Human Rights Policy at Harvard University's Kennedy School of Government, insists that the ambit of human-rights organisations must expand: “Look at Botswana,” he says. “All the gains in civil and political rights that have been made there will be wiped out by the catastrophic losses in economic and social rights. At this level of incidence of AIDS, the virus destroys the infrastructure of a society. It cuts into the defences that make civil and political rights possible.”

Mr Ignatieff has a point. Botswana, like neighbouring South Africa where AIDS is also rife, is a democracy with a reasonably free press and healthy civil institutions. The fact that Botswana suffers from the world's highest incidence of AIDS, with South Africa close behind, proves that democracy and press freedom are not prophylactics. Human-rights campaigners may feel that these countries are not doing enough to staunch the spread of the disease, but they cannot blame the failure on political abuses. Nor can they tell other, less enlightened regimes that respecting civil and political rights will help to halt the spread of AIDS.

In addition, human-rights groups worry that the governments of the rich world are not responding to this catastrophe with enough vigour, and that using “rights talk” may shake them out of their torpor. “Doing something about AIDS in Africa is not about charity or public-health prevention. It is a matter of obligation,” says Mr Ignatieff. “The rights argument is a way to leverage money to fulfil this obligation.” Whereas calls for generosity can only pluck weakly at the sleeves of rich governments, perhaps unsubtle claims of legal obligation will twist their arms.

High risk

However, the strategy is a perilous one. Even if economic and social rights appear to have the same status on paper as civil and political rights, their philosophical grounding is often questioned. Designating a good as a universal human right means that reasonable people believe that under no jurisdiction, and under no circumstances, may that good be justly denied to anybody. Although freedom from torture certainly now falls into this category—arguably due to the efforts of groups like Amnesty—goods such as food and a decent home do not. Governments may intentionally torture their citizens; they do not usually intentionally inflict on them poverty and ill health. The moral imperative to stop poverty or disease is therefore not as convincing as the moral imperative to stop torture.

There is a further problem. In the eyes of governments today, certain human rights in the civil and political realm have attained the status of moral absolutes. Abusers of these rights face sanctions and censure, even if their actions are mandated by the democratic processes of a sovereign state. However, giving a similar status to economic and social rights would produce a curious outcome. Some nations would be subject to condemnation simply because of their poverty, while others would be arraigned for the policy outcomes of decisions taken democratically. The first stance would be morally distasteful, while

the second would be counter-productive.

For illustration, consider the concept of a right to health, which has drawn particular attention. Last year, the UN Committee on Economic, Social and Cultural Rights stated that a government's "core obligations" include the provision of equal access to health services, enough food, potable water, sanitation and essential drugs. Yet by these criteria, says Lawrence Gostin, a fellow at the Hastings Centre for Bioethics in Garrison, New York, the United States "probably violates the right to health not because it spends too little on health care and public health, but because its resources are inequitably distributed". That seems a radical enlargement of the concept of rights.

Critics of an expanded set of human rights point to another difference between the old sort and the new. To guarantee civil and political rights is relatively cheap, whereas to guarantee economic and social rights is potentially enormously costly. The cost of ensuring the right to vote, for example, is well-defined: the nature of universal franchise is set out in a century of case law and statute, and the costs of staffing and equipping the ballot are easy to assess. Even when an election turns out to require independent observers, extended court sessions and a lot of recounting, as in Florida last November and December, it is still relatively easy for a democratic government to protect its citizens' right to vote. Endorsing a universal right to health care, by contrast, seems a sure start to an expensive ride down a slippery slope. Who is to say when a person has had enough money spent on keeping him fit?

In any case, it will be hard for human-rights campaigners to advance economic and social rights as successfully as they have promoted civil and political rights. HRW, which recently started pushing into the new field in response to AIDS, wants to provide solid evidence of links between lack of health care and human-rights abuses. It has now launched a fully fledged programme on AIDS and human rights. Some of this programme will cover familiar territory, exploring how discrimination against homosexuals, sexism and censorship encourage the spread of AIDS. The rest may be more controversial, although Kenneth Roth, the executive director of HRW, says his goal is simply "to show that certain basic necessities are appropriately treated as rights, and that the means have to be found to allow access to these necessities".

In the case of AIDS, the main question is what pharmaceutical companies should do about drug prices. Mr Roth maintains that a government cannot be said to be upholding the right to health "when it defends excessive corporate profits over the right of access to essential, life-saving medicines in cheap or generic form". HRW is currently working out the details of its position on drugs, and is hunting for a role where its investigative capabilities would be useful. But dealing with the complexities of appropriate drugs policies in poor countries requires quite different skills from fighting on the simpler issues raised by torture or unjust incarceration.

EPA

Oblivious Americans

If human-rights campaigners succeed in deploying their campaigning skills to improve health and reduce poverty, that will be a considerable gain. However, they risk alienating Western countries that have hitherto usually been their allies.

Unsurprisingly, America is at the top of that list. America has not yet ratified the International Covenant on Economic, Social and Cultural Rights. George Moose, the American ambassador to the UN Human Rights Commission (UNHRC), explained in April that his country was "concerned" about changes in international law that would "lead in the direction of the creation of legal, enforceable entitlements to economic, social, and cultural rights". Why? Because "that would mean citizens could sue their governments for enforcement of rights". At a meeting in Geneva in January to prepare for the UN summit on AIDS, the American delegation explicitly rejected a rights-based approach to stopping the disease, which it prefers to consider as a health-policy problem or, when pressed, as one of national security.

However, badgering the United States to change its attitude may be little use. After all, human-rights groups have long tried unsuccessfully to persuade America to abolish the death penalty. If such groups start offering their views on a slew of other issues, Americans may simply stop paying attention to them.

Mr Ignatieff admits that human-rights groups risk becoming marginalised. Nevertheless, he argues that “the risk of not going this route is equally great: you become focused on yesterday's challenge and you miss tomorrow's challenge.”

Campaigners argue that tomorrow's challenge in the United States is to convince people of the legitimacy of social and economic rights. “It is a new idea for Americans to think of themselves as having human rights as well as constitutional or statutory rights,” says Mr Roth. Leonard Rubenstein, of Physicians for Human Rights, a lobbying group based in Boston, predicts that “as Americans start demanding rights for others around the world, they will start pressing for them at home as well.” In the end, he hopes that these rights will become as uncontroversial as the civil rights Americans take for granted today. “Human rights ought not to be a partisan issue”, says Mr Cox. “You could have a partisan debate on how to realise the rights to housing, health, and food. But you should not have a partisan debate on whether there are such things.”

Unfortunately, extending the notion of human rights could have the opposite effect. Rather than elevating rights above the partisan fray, it could turn them into political shuttlecocks. To some extent, this has happened in Britain, where the adoption of the European Convention on Human Rights last autumn has been followed by a flood of lawsuits. The net effect has been to make these rights seem more trouble than they are worth.

Human-rights campaigners risk frittering away their hard-won political capital in the pursuit of rights that are both undefinable and undeliverable. Veteran campaigners know all too well that two wrongs don't make a right. They are about to find out that too many rights may well make a wrong.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The leadership of black America

Time to pass on the torch

Aug 16th 2001 | CHICAGO
From The Economist print edition

AP

The publicity-driven tactics of Jesse Jackson and Al Sharpton look increasingly tired and irrelevant. Black America needs a new generation of leaders

IT HAS been another busy week for America's black leaders. In Chicago, Jesse Jackson presided over the annual meeting of the Rainbow/PUSH group (that last bit stands for People United to Serve Humanity), where he announced that the Toyota company would spend no less than $8 billion over the next ten years on a project to involve more non-whites in every aspect of its business. “More car dealers means less car stealers,” Mr Jackson told an applauding audience.

Soon afterwards, Al Sharpton said his farewell to the Metropolitan Detention Centre in Brooklyn. He was due to be released on August 17th after serving a 90-day sentence for trespass while protesting against the American navy's bombing exercises on the Puerto Rican island of Vieques. Mr Sharpton now has to decide whether he wants to seek the Democratic Party's nomination for the presidency in 2004; he looks a bit dubious in our picture.

Rarely out of the headlines, masters of the stage-managed event and the attention-grabbing soundbite, men like Mr Jackson and Mr Sharpton have long used the power of publicity to prod white America into recognising the claims of black America, and doing something to meet those claims. But, for all their past successes, their grandstanding now looks tired and increasingly irrelevant. To a growing number of blacks, their ideas have gone stale.

“If your only tool is a hammer, everything looks like a nail,” says Clarence Page, a columnist on the *Chicago Tribune* who has followed Mr Jackson's career for three decades. Black America needs more sophisticated tools. Some of the issues that matter most—school reform, drugs policy, the rescuing of the family—receive scant attention because they have no easy remedies and because there are no obvious culprits to point a finger at. It is one thing for Mr Jackson to lambast the “prison industrial complex”. It is another to come up with a coherent plan for dealing with the shockingly disproportionate number of black men in jail or on probation.

Above all, the problems of America's blacks have changed considerably over the past four decades; but their leadership has not. The typical black leader is still a male over 50 who is a prop of the church (both Mr Jackson and Mr Sharpton are Reverends) and has some connection to the civil-rights movement. There were precious few young faces at the table of that Rainbow/PUSH meeting.

David Bositis, an analyst at the Joint Centre for Political and Economic Studies, a black think-tank, sees some significant differences in the way different generations of American blacks look at the world. Opinion polls show that younger blacks, those aged between 18 and 25, are the ones most likely to believe that the condition of black Americans has improved over the past five years. The older ones are likelier to believe that it has either got no better, or actually got worse. Young blacks are far less loyal to the Democratic Party than their elders have been. Nearly half of the 18-25 lot describe themselves as politically independent. And young blacks overwhelmingly support school vouchers; those over 65 are strongly against.

So where will the next lot of black leaders come from? From the increasingly wide range of professions in which blacks now make their mark, not just the civil-rights movement. “We have leaders in every walk of life now,” says Mr Page.

He reckons that the racial progress of the past few decades has had three main stages. The first was the breakthrough to legal equality in the civil-rights era. The second was the electorate's growing willingness to vote blacks into political office. And now the third and potentially the biggest wave of change is happening, in the private sector of the economy. The examples stretch from the film industry, where black directors such as John Singleton and Spike Lee ply their trade, to boardrooms at companies like AOL-Time Warner. Most people did not know that the vice-chairman of that company was black until President Bush appointed him to his Social Security commission, points out Mr Page.

Politics still matter, of course. There are some 9,000 elected black officials in America, any one of whom could attain sudden prominence by winning election to statewide office. There are also 39 black members of Congress. The names of the same three members of the House of Representatives creep into nearly every conversation about future leaders.

There is Harold Ford junior, a moderate Democrat from Tennessee who was elected to his father's seat in 1996, at the age of 26. There is J.C. Watts, an Oklahoma Republican who has steadily risen to a powerful position in the House hierarchy. And there is young Jesse Jackson, an Illinois Democrat who has rolled up his sleeves and delved into specific issues in a way his father never did. There is nothing very gripping about Mr Sharpton running for president, says Mary Mitchell, a columnist on the *Chicago Sun-Times*. But if Jesse junior ran, “Now, that would be exciting.”

These days, many of the chief concerns of black Americans have become more local. The time is past when the Supreme Court, with one sweeping decision, could push race relations in America towards dramatic change. In recent years, the black leaders with the most impact have been those engaged in the nitty-gritty task of transforming their own neighbourhoods. One outstanding example is Eugene Rivers, a Boston pastor whose faith-based programmes—and co-operation with the police—have dramatically reduced the amount of youth violence. “Towns that have [strong local leaders] make progress; towns that don't have riots,” says Mr Page.

The old guard is not gone yet. If Mr Sharpton does choose to run for the presidency, he is not going to win the Democratic nomination but he could get enough black votes in the Democratic primary to give him quite a bit of leverage with whoever does. And Mr Jackson still has plenty of clout, as is shown by the glittering people he was able to persuade to attend that Chicago conference: they included Bill Clinton, Tom Daschle, the Senate majority leader, and Jacques Nasser, the president of Ford. The veterans will also point out that it was they who created the opportunities now available to the youngsters who want to succeed them. Even so, it seems time for them to pass on the torch.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Peacekeeping and war

No, they're not incompatible

Aug 16th 2001 | CHANTIGNY, ILLINOIS
From The Economist print edition

You can escort kids to school and stay a good fighting man

AP

It doesn't stop a soldier being a soldier

WHO said that peacekeeping was a job better suited to social workers than trained fighting men? The very thought sends a shudder of indignation down the super-fit frame of General David Grange, a Special Forces veteran who now looks after a temple of American military prowess: the museum of the 1st Infantry Division, where the battles of Vietnam and two world wars are remembered amid the rolling lawns of an estate near Chicago.

Having fought in Vietnam and kept the peace in Bosnia, the general has no patience with the idea that the army should keep its powder eternally dry in readiness for a full-scale war in the Korean mountains or the deserts of Asia. America's fighting men, he insists, should be able to move rapidly up and down the full range of contingencies, “from brutal combat to humanitarian assistance”. Even in relatively benign places like post-war Bosnia, peace-support work can be good practice for battle because it gets men used to working in unfamiliar cultures and taking the sudden decisions that real war requires.

His trenchant beliefs dovetail neatly with those of a fellow Chicagoan, Charles Moskos, a sociology professor who set off a furious exchange of e-mails among defence pundits by conducting a survey of American peacekeepers in Kosovo and finding that most of them enjoyed their job, and thought it made them better soldiers. Nearly half (46%) denied that peacekeeping “weakens the warrior spirit”; 37% thought keeping order in Kosovo would make them better prepared for combat, and only 14% said the opposite.

As the battle over the structure of America's armed forces grows fiercer, all this is of more than academic interest. Until recently it was an article of faith, among defence-minded conservatives, that the battle-readiness of America's best soldiers had been eroded by the Clinton administration's irresponsibility in flinging them into less than vital places such as Haiti and the Balkans. During last year's presidential election, Condoleezza Rice—now President Bush's national security adviser—made the acid comment that “escorting kids to kindergarten” was hardly the best use for the 82nd Airborne Division.

But, faced with the realities of office, the Bush administration found that cutting down the peacekeeping job is easier said than done. The European members of NATO were horrified by the idea that America might pull its 10,000 peacekeepers out of the Balkans, and have been assured that there will be no rude surprises.

Donald Rumsfeld, the defence secretary, confirmed this month that he might withdraw the few hundred Americans who have been serving in a multinational peacekeeping force in the Sinai peninsula for the past 20 years. But he faces tougher decisions than that. It is being said that the Quadrennial Defence Review, due to be unveiled next month, will call for the axeing of one or two complete army divisions.

This would mark a radical change. The preservation of ten divisions (there were 18 before the Soviet Union's collapse) was a sacrosanct principle for most of the Clinton era. So was the related axiom that America must be able to win two medium-sized wars at the same time. If one or two divisions are cut, this will be presented as the result of a shift to a new set of assumptions. The planners have been told to work out how big an armed force is needed to win one medium-sized war while simultaneously deterring threats to America itself, keeping a protective arm around America's friends in one overseas region, and doing a peacekeeping job in another.

The army's advocates will give Mr Rumsfeld a tough time if he asserts that this new set of tasks can be achieved with a smaller force. They will point out that, in 1991, the Gulf war alone tied down more than seven divisions. Last month the planners came up with a provisional conclusion that the armed forces might in fact need to be expanded. They were told to go back to the drawing-board.

Still, the effect of the debate opened by Mr Rumsfeld can already be felt. So long as the ten-division figure was considered unchallengeable, friends of the army on Capitol Hill could complain bitterly about “overstretch” without fear that anyone would say: “So, let's do less, and have a smaller army.” Now that the size of the army is seriously under review, the critics of peacekeeping have become a little more subdued—and bolder voices, like General Grange's, are being heard more loudly.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

A fading state

Fare thee well, Iowa

Aug 16th 2001 | CHICAGO
From The Economist print edition

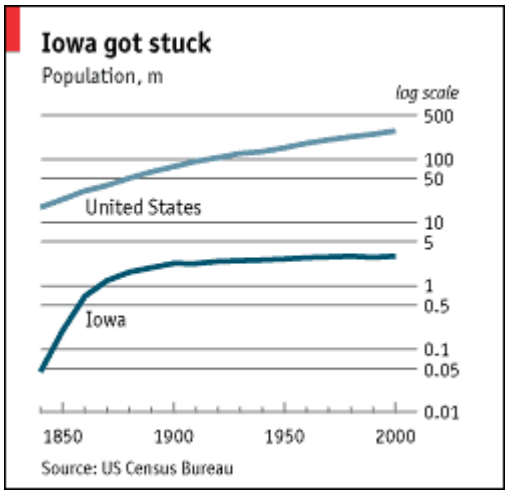
Can Iowa persuade people to live there?

JULIE WHIPPLE was born in Iowa, not far from where her parents, grandparents and great-grandparents had been born. She went to high school in Nashua (population 1,618), graduated from the University of Iowa—and then walked away to Chicago, in Illinois. Iowa wants her back.

"We need more people if our state is to thrive and prosper," says Governor Tom Vilsack. Iowa's population of 2.9m has grown a bit since 1990, but at little more than a third of the rate for the country as a whole. About half of its 99 counties have fewer people than they did a decade ago. In 44 of them the population had peaked by 1900, in another 25 between 1910 and 1950. The number of working-age Iowans, those between 20 and 64, is expected to fall by 23,000 between 2010 and 2020, and the number of those over 65 to grow by 142,000. There are already more over-75s than under-fives.

Young, well-educated Iowans such as Mrs Whipple, a software consultant, are the likeliest to look for better jobs and more pay in other states. Iowa's excellent schools and universities are subsidising employers everywhere else, says Betsy Brandsgard, of the governor's Strategic Planning Council. Except in big cities such as Des Moines, which are still growing, emigration is sapping the state's vitality. And bad makes for worse. The more good workers leave, the fewer are willing to stay. The fewer there are, the harder it is to pay for the needs of an ageing population.

Iowa's demographic challenge is not unique. A map of the American counties that lost the most people between 1990 and 2000—some of them 10% or more—shows a wide swathe reaching down the mid-west from Canada to Mexico. But Iowa, at least, is fighting back.



For Mr Vilsack, the battle has three fronts. First, he wants to keep young Iowans from moving away in the first place. Roughly 60% of Iowa's university students have been leaving the state after graduation. He has been touring the universities to tell the new lot about Iowa's employment opportunities. University graduates can visit a website that lists some 1,500 professional and technical job openings in the state. The state legislature has appropriated $180m to help communities make themselves more attractive.

Second, he wants to pull people like Mrs Whipple back home. The state has sent direct-mail solicitations to 215,000 Iowan graduates telling them how to find good jobs in Iowa. Mr Vilsack himself has held "Iowa alumni and friends" receptions in New York, Los Angeles, San Diego, Chicago and Phoenix, where he introduces them to eager employers. He will soon add Minneapolis and Dallas to the list.

The third task is to bring skilled immigrants to Iowa. "There are potential Iowans out there, all over the world," says Ms Brandsgard. Three cities—Marshalltown, Mason City and Fort Dodge—have received "New Iowa" grants to help them lure in people from around the globe.

Will it work? Mr Vilsack has to face some hard facts. Iowa, like the rest of rural America, is a victim of its own success. Its farmers are among the most productive in the world. But their productivity means lower prices and fewer farm jobs. As Alan Krueger, a Princeton economist, puts it: what's good for America is not necessarily good for Iowa.

And Americans continue to move to other regions. The population of the southern and western parts of the country grew by 17% and 20% respectively between 1990 and 2000, compared with 8% in the mid-west and 6% in the north-east. One reason is better weather. As transport grows steadily cheaper, Edward Glaeser, who teaches at Harvard, has found that cities with an average daily temperature in January of under 30°F grew by less than 5% between 1990 and 2000, while those with temperatures above 50° grew three times as fast. Des Moines, freezing in winter, steamy in the summer, is no San Francisco.

Skills matter, too. Between 1990 and 2000, cities where 25% of the workers are university educated grew twice as fast as cities where only 15% are. Iowa has a higher proportion of high-school graduates than America as a whole, but fewer university graduates.

So it is unlikely that there will be a roaring flood of migrants into Dubuque or Moline. Immigrants go to places where there are already a lot of other immigrants, and those places tend to be big cities, explains Mr Krueger. Indeed, the governor's plan to put out the welcome mat for the world's highly skilled masses has irritated quite a lot of Iowans. Some 1,400 people who live in Mason City, and another 1,400 in Fort Dodge, have (unsuccessfully) asked their elected leaders to reject the state's immigration-planning grants.

Iowa will never be New York or California. No matter. It has good schools, short commuting trips to work, little crime and cheap housing. There is even some truth to the clichés about friendly people and comforting neighbourliness. Robert Putnam, a Harvard political scientist, has ranked the states according to their “social capital”, the informal ties among individuals that make them feel connected to their community. Iowa is near the top.

So far, the state has counted only 675 individuals and families who were persuaded to return by its come-back-to-Iowa campaign. It sounds paltry when you think of the number who have left, and are still leaving. Perhaps it is too early to despair. Only a decade ago, America's cities were being pronounced dead because the middle class, it was said, was scrambling out of them. Yet now many cities are thriving again, largely because their leaders have put money and effort into things that make urban living more attractive.

But it takes time. Alas, Mrs Whipple, though invited to Mr Vilsack's reception in Chicago, did not attend. She says she has no plans to go home any time soon.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Amish farming

Go organic, young man

Aug 16th 2001 | MILROY, PENNSYLVANIA
From The Economist print edition

Greenery, as well as their gentle form of communism, could help the Amish

ELI HOSTETLER gazes out from under his wide-brimmed straw hat at his 25 acres of fruit and vegetables. His team of horses waits quietly, hitched to a steel cultivator. “Farming is what I like to do. I can't imagine doing anything else,” he says. Like many Amish, he has a tiny farm, barely 100 acres in all, dwarfed by giant agribusiness firms with hundreds of thousands of acres.

The Amish, a devoutly religious people who shun such trappings of modernity as cars, secondary education and electricity from public grids, have protected their way of life for over 300 years in part by sticking close to their agrarian roots. As recently as the late 1970s, nearly 70% of Amish men worked the land. Now, in many communities, fewer than half do. Encroaching suburbs and increasing tourism have pushed up land prices, and declining commodity prices have cut into incomes. Many Amish now have to make their living in factories, or in trades such as carpentry.

Unlike many Amish farmers, Mr Hostetler is thriving. Since becoming a certified organic farmer, he has been able to sell his raspberries for nearly twice the price charged by his non-organic neighbours, and his potatoes for three times as much. The income that he, his wife and his four children get from working his small plot near Milroy, Pennsylvania, has trebled.

Mr Hostetler and six other Amish and Mennonite farmers (the Mennonites are religious cousins of the Amish) have joined the Tuscarora Organic Growers Co-operative, which sells their wares in the area around Washington, DC. Last year the co-op, which also has eight “English” (as the Amish call non-German-speakers), sold over 50,000 crates of fresh produce: small potatoes in California, but not for the Amish.

The co-op guarantees the farmers a steady market. It also provides transport to the nation's capital—a mere 2½ hours away by car, but beyond the reach of an Amish horse and buggy. As the co-op's manager, Chris Fullerton, puts it, “Some farmers are just not very good at selling their produce.” By taking over the marketing, the co-op lets its farmers focus on production, where dirty fingernails and a gruff voice are no handicap.

The organic market is booming: it was worth $7.8 billion last year. It also seems to be a natural fit for the Amish. So why have so few of them become certified organic growers? The organic certification process is difficult for small farmers. Mr Hostetler, who bought his farm from an in-law who had used pesticides, had to farm the land for three years without chemical inputs before he was passed. And, surprisingly, despite their rejection of most modern technologies, many of Mr Hostetler's neighbours quite like chemical fertilisers and pesticides: they kill the weeds faster.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

America the contemplative

It's Buddha's turn

Aug 16th 2001
From The Economist print edition

The largest Buddhist temple outside Asia opens its doors in Colorado

AP

The Buddha awakes

IF YOU are searching for the path to enlightenment, try a visit to Colorado. This Saturday, August 18th, the largest Buddhist temple outside Asia—the Great Stupa of Dharmakaya Which Liberates Upon Seeing—will be consecrated at the Rocky Mountain Shambhala Centre in Red Feather Lakes, two hours' drive from Denver. The Shambhala spiritual leader has already “awoken” a 14-foot bronze statue of the Buddha, at the heart of the stupa, by painting its eyes. The temple, built of the toughest concrete, meant to last 1,000 years, is the result of 14 years of work and $2.7m of donations. It commemorates Chogyam Trungpa Rinpoche, a Tibetan meditation master and the father of Shambhala Buddhism, who died in 1987.

Trungpa Rinpoche's remains could hardly have found a more appropriate resting-place. Having fled from Tibet in his youth, he was a powerful figure in spreading Buddhism in the western world, first in Britain and later in North America. He developed Shambhala training, which concentrates on the practice of meditation, increasingly popular in the West in the past couple of decades. He created a network of 150 meditation centres around the world, which offer weekend courses for busy Buddhists; he started the Naropa University in Colorado; and he also turned out to be a bestselling author.

The United States has been particularly fertile ground for all this. Although most American followers of Buddhism are still of Asian origin, interest has been growing among non-Asians. Since the Dalai Lama won the Nobel peace prize in 1989, Buddhism has become increasingly popular, claiming some high-profile converts such as the actor Richard Gere. There are now thought to be about 1m non-Asian Buddhists in the country. *Tricycle*, a Buddhist quarterly based in New York, sells over 50,000 copies per issue, compared with a few thousand in the early 1990s.

These days many Americans of assorted religious views seem happy to experiment with Buddhist-inspired practices. Attendance at Buddhist retreat centres is growing, as people talk about their need for spiritual fulfilment. Monsanto, a biotech company, works with the Centre for Contemplative Mind in Society, based in Massachusetts, which uses meditation to help executives solve their problems. You need to keep things in proportion, says Robert Thurman, professor of Indo-Tibetan Buddhist studies at Columbia University. The “American Buddhist wave” is still much smaller than the *tsunami*-like rise of Christian fundamentalism. Still, watch that stupa in Colorado.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Lexington

Leon Kass, philosopher-politician

Aug 16th 2001
From The Economist print edition

The president's choice for bioethicist-in-chief

Get article background

ONE of the oddest things about the current administration is its relationship with the gleaming-minded. George Bush is one of the least intellectually curious politicians in the business (which is saying something), a man who glided through two Ivy League universities without acquiring much in the way of book learning, and is still pretty vague about “abroad”. Yet he never hesitates to make use of intellectuals when it serves his interests.

He was at it again during his long deliberations on stem-cell research. He not only talked at length with scientists, policy wonks and bioethicists. He has appointed one of the bioethicists, Leon Kass, to run a newly created council on the subject, singling out this University of Chicago professor for special mention during his address to the nation.

Who is this obscure figure who has been given such influence over so vexing a subject? And what sort of advice is he likely to offer? Mr Kass could hardly possess better credentials. He trained as both a doctor and a biochemist before venturing into the squishy field of bioethics. He eschews the hyper-specialisation that so disfigures modern academia. He helps to teach Chicago's justly famous course on “great books”, and has written on such diverse subjects as courtship and eating habits.

But Mr Kass is far from being a political virgin. He has spent some time at the American Enterprise Institute, one of the nurseries of the current administration. He has written widely in intellectual magazines, liberal as well as conservative. And he has testified before Congress on the evils of cloning.

It was his views on cloning that attracted the White House's attention. And Mr Kass exploited that attention with consummate skill. He was present during the vital meeting, on July 9th, when the president first cogitated on the case for limiting the provision of tax money to existing stem-cell lines, the compromise he ultimately announced. He then persuaded the president to allow him to broaden the remit of his council from stem-cell research to the bigger question of whether modern science has lost its bearings. This philosopher is a politician, too.

His appointment was inevitably greeted with rapture on the right. This is the first time that the millions of Americans who take religion seriously have had their views represented on so important a federal body. But Mr Kass is an unusual sort of conservative, and not just because he is a Jew rather than a Christian. He claims he learned his values growing up in a socialist household in hard-scrabble Chicago. His views owe less to the Bible, Old Testament or otherwise, than to classical philosophy, particularly Aristotle's “Ethics”. He belongs to a small group of influential conservatives, including Paul Wolfowitz, number two at the Pentagon, and John Walters, Mr Bush's choice for drugs tsar, who see themselves as disciples of Leo Strauss, a philosopher who preached reverence for classical texts.

To some, Mr Kass's ideas come across as little more than old fogeyism. He laments that women spend their fertile 20s living on their own rather than with their parents or husbands: “Unprotected, lonely and out of sync with their inborn nature”. He claims that stoning rapists to death “has never seemed to me too cruel or excessive a punishment”. But at his best he offers a powerful critique of a society that tends to reduce all choices, however profound, to the level of consumer preferences.

His thought is guided by two principles. The first is his scepticism about the Enlightenment's project of mastering nature. The two books that have influenced him most in this area, he claims, are Aldous Huxley's “Brave New World” and C.S. Lewis's “The Abolition of Man”. Both books cock a sceptical eye at

the dream of conquering disease and ending suffering. The second principle is what he calls “the wisdom of repugnance”. Mr Kass believes that ordinary people are right to recoil instinctively from scientific schemes to clone humans or cross chickens with horses. “In this age in which everything is held to be permissible so long as it is freely done, repugnance may be the only voice left that speaks up to defend the central core of our humanity. Shallow are the souls that have forgotten how to shudder.”

Don't let repugnance get repugnant

But is shuddering really a good guide to public policy? Mr Kass is right to warn people against scientific Utopianism. What sensible person does not shudder when crackpots dream of the day they will be able to grow horns, wings, gills and tails? The problem is that most people don't turn to biotechnology because they want to turn themselves into gods or devils. They are hoping to overcome infertility, or cure a crippling illness.

Mr Kass is obsessed with the downside of biological research. But are the hundreds of thousands of children who have been born thanks to *in vitro* fertilisation not a cause for wonder rather than moral hand-wringing? Mr Kass now claims that he has modified his initial opposition to IVF, though many of his objections to cloning apply to any attempt to produce life “unnaturally”. But the thing that seems to drive his thinking is the fear that “scientific progress” may be the thin end of a wedge that leads inevitably to Lewis's “abolition of man”.

Nor is Mr Kass's “repugnance” much of a guide to policy. Didn't Americans once regard slavery as acceptable and women's suffrage as unthinkable? Are they not today profoundly divided over whether abortion is repugnant or not? When Louise Brown was born in 1978, most people regarded test-tube babies as freaky. Few do today. Mr Kass may have deliberately exaggerated his objections to scientific advance in order to balance the relentless propaganda that comes from the biotechnology industry. But if he wants to provide the president with real wisdom, not just homilies on repugnance, he needs a more nuanced approach. He has to acknowledge the promise of science as well as its perils. Let him pause for a moment to wonder at the miracle that allowed Louise Brown to be born.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Argentina's economic crisis

Dreading the cure

Aug 16th 2001 | WASHINGTON, DC AND BUENOS AIRES
From The Economist print edition

AP

A new IMF loan may bring temporary relief. But Argentines have little faith in their government or its austerity policies

Get article background

GOOD news has been hard to come by in Argentina in recent weeks, as the government has battled against fears of a debt default and devaluation. But this week, superficially at least, was an exception. After a week of tough negotiations in Washington, Argentina's economic team seemed close to persuading the IMF that they deserved more support.

As *The Economist* went to press, it appeared that agreement had been reached on a new IMF loan worth around $8 billion, in addition to bringing forward $1.2 billion under a previous loan agreement. That was more or less what investors had been expecting. But it was still far from clear whether the new money would in fact alleviate Argentina's agony. It might simply prolong it.

For financial markets to take comfort, much of this money would need to be available straightaway. Bank deposits and international reserves have fallen sharply (see chart). To bolster confidence, the government needs to show it has plenty of money to prop up its currency board, as the arrangement which pegs the peso at par to the dollar and makes it freely convertible is known.

But it appears as though the IMF's approach is at least partly "wait and see". A significant chunk of the new money would be disbursed over the next year—provided that Argentina sticks to its tough fiscal policy. Further spending cuts are on the cards, including the possible cancellation for public-sector workers of the extra fortnight's salary that they traditionally receive at Christmas.

Politically, such measures will not be easy. President Fernando de la Rua's government last month gained congressional approval for its zero-deficit fiscal policy and the agreement of provincial governors to carry out similar budget cuts. But cuts in public-sector wages and pensions of up to 13% are very unpopular. They may be difficult to sustain—especially if the government fares badly, as expected, in a congressional election in October.

Moreover, the IMF may simply be storing up trouble. Argentina

faces large debt repayments to the Fund in 2002 and 2003. The new loan would increase the load, making repayment hard unless the economy is growing fast. But successive austerity packages have succeeded only in deepening a recession now in its fourth year.

Critics argue that by depressing the economy, spending cuts lead to lower tax revenues, and are thus self-defeating. But ministers counter that the alternatives, in the shape of a debt default and/or devaluation, would cause even greater problems.

Maybe so. But four Argentines out of five tell pollsters that they do not support the government's policies. Frustration has spilled on to the streets. This week, protesters threw up barricades on 33 roads across the country. Last week, around 25,000 demonstrators in Buenos Aires called for an end to the cuts and cheered speakers who advocated a default.

The protests are fairly small—but so are the numbers who still back the government. The president's support has dwindled even in his own Radical party: in a primary last weekend in Buenos Aires's inner core, Mr de la Rua's home turf, his candidates were defeated.

The Peronists, the main opposition, have difficulties of their own. Their titular leader remains Carlos Menem, who governed Argentina until 1999. But he is widely blamed for the current mess; he is now under house arrest on charges of arms smuggling. Without him, the Peronists lack a clear leader and a unified platform.

Some Argentines are starting to look for political alternatives. Polls show that the country's most popular politician is Elisa Carrio, a dissident from the Radicals. Four months ago she set up a new party, Argentina for a Republic of Equals. Swelled by an influx of disaffected deputies, mainly from the left of Mr de la Rua's Alliance, this is now the third-largest grouping in the lower house. Ms Carrio's popularity stems from her campaigning against corruption. Last week, she accused Domingo Cavallo, the economy minister, of financial impropriety, and Chrystian Colombo, the cabinet chief, of past involvement in money-laundering. Mr de la Rua dismissed her claims as “imprecise”.

Angry as Argentines may be, most still seem to want to keep their currency board, and to avoid a default. “I don't see people looking for a situation of chaos after ten years of stability,” says Hugo Haime, a pollster. Even Ms Carrio, who supports “restructuring” the debt, says she is opposed to the way free-market policies were implemented, rather than to capitalism. “The trickle-down effect never happened here because the capital was smuggled out of the country,” she says.

The IMF loan may just about tide the government over until the election. Few in Buenos Aires are prepared to predict what the country's political map will look like thereafter. But Mr de la Rua is unlikely to emerge from the vote with a stronger political base. His government's woes, and Argentina's, are far from over.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

South American integration

Sparks fly in a lost world

Aug 16th 2001 | SANTA ELENA DE UAIREN, VENEZUELA
From The Economist print edition

What electrification can do for Venezuela and Brazil

THE tiny border town of Santa Elena, lost in the vast savannahs of south-eastern Venezuela, had never seen anything like it. Some 30 months late, and $100m over budget, a 680-kilometre (425-mile) transmission line linking Venezuela's massive Guri hydroelectric power plant with the state of Roraima in northern Brazil finally came on stream this week. There to flick the switch were not just Venezuela's President Hugo Chavez and Fernando Henrique Cardoso of Brazil, but Cuba's Fidel Castro.

All three are rhetorical champions of Latin American unity. Mr Castro, celebrating his 75th birthday in Venezuela at the invitation of Mr Chavez, bemused the small crowd with a startlingly irrelevant monologue about soya beans. But Mr Cardoso, in particular, sees joint infrastructure projects, such as the power line, as the way to achieve the integration of South America. Brazil has an electricity shortage. The new line will supply 250,000 people, at a cost of $28 per megawatt-hour (MW/h), saving Brazil 55m *reais* ($22m) per year. Roraima's electricity used to come from diesel generators, at a cost of 300 *reais* per MW/h.

But the project has its critics. Conceived under Mr Chavez's predecessor, Rafael Caldera, it was part of a grandiose plan to “conquer the south” of Venezuela. It was approved without reference to the country's parliament (which has yet to ratify the bilateral agreement). The ugly steel pylons march across what was virgin rainforest; they mar the landscape of the Gran Sabana region, a wilderness so geologically ancient and remote that it inspired Arthur Conan Doyle's dinosaur fantasy, “The Lost World”.

The delays and cost overrun were largely due to opposition from local Indians, who knocked down 30 pylons in protest at what they saw as a threat to their way of life. Critics claim that the electricity will fuel an ecologically destructive mining boom. Mr Chavez's government made efforts to mitigate the environmental damage, and to placate the Indians. It insists the benefits from integration will outweigh the costs.

That is not clear. Over the next 20 years, Brazil will take electricity worth only $700m; it is not interested in extending the transmission line to Manaus, a far bigger market than Roraima. Maybe the $400m the new power line cost Venezuela would have been better spent on upgrading its national power grid. The country “runs the risk of a serious energy crisis unless a very broad and ambitious investment plan is undertaken,” the head of the private-business federation said this week. It would be ironic if the 17,500 inhabitants of Santa Elena ended up with a more reliable power supply than their 24m compatriots farther north.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Chile's defence policy

Retooling

Aug 16th 2001 | SANTIAGO
From The Economist print edition

Democracy has not brought a rethink of military needs

IN RELATION to its population and to the size of its economy, Chile spends more on defence than any other South American country. That is the legacy of General Augusto Pinochet's dictatorship (1973-90). Although he expanded the armed forces, the general left them with outdated equipment. Rather than starting a public debate about what sort of defence Chile needs, its democratic government is now shopping for some $2.3 billion in new hardware.

That is strange. With democratisation in South America, relations in the neighbourhood have improved. Of a score of border disputes with Argentina, all but one have been settled. In a sign of the new closeness between the two countries, Argentina in 1999 sent a destroyer to a Chilean naval shipyard for repair. Relations with Peru, too, are warmer, though Chile's military men worry about the purchase by Alberto Fujimori's government of Sukhoi and MiG fighters from Belarus (and perhaps the latest Russian air-to-air missiles), and about their neighbour's fleet of German-built submarines.

In a timid gesture towards rationalisation, Chile's government in 1997 published its first-ever defence white paper. But this did not project future needs. A new version is due out next year, but civilian defence experts, some of whom have been excluded from the discussions, doubt that it will recommend radical changes.

Mario Fernandez, the defence minister, argues that the armed forces need to be equipped to take part in international peacekeeping missions, for fisheries protection and to deal with such new security threats as drug-trafficking and the international transport of toxic waste. But civilian defence analysts question whether the armed forces' shopping list of submarines, frigates and fighter planes is the best way to meet these needs.

One example concerns the air force's plans for new fighter jets. Its existing aircraft are clapped out. But the replacements it considered ranged from the Gripen, an Anglo-Swedish defence fighter, to the sophisticated Boeing F-18 attack plane. It has finally chosen ten Lockheed Martin F-16 fighters from the United States, at a cost of $700m. “Comparing such different planes implies that the air force isn't clear about its objectives,” says Raul Sohr, a writer on defence.

Thanks to economic growth, Chile's defence spending has fallen as a percentage of GDP (see chart), but not in absolute terms. Civilian officials claim that they still have little control over military spending. By law the armed forces receive 10% of the revenue from the exports of Codelco, the state-owned copper company, to spend on military equipment. And even the normal defence budget cannot easily be trimmed, because other laws dating from the dictatorship index military wages to inflation and fix other items of military spending at their 1990 level.

Critics argue that democratic governments have made no serious effort to rein in military spending. Now they may have to. Eduardo Santos, a defence analyst, points out that the plans for new hardware were drawn up in the mid-1990s, when the economy was growing at 7% a year. Now money is tighter.

Take the navy's plans for four new German-designed frigates, three of them to be built at its own dockyard at Talcahuano, in southern Chile. Mr Fernandez says Chile will acquire useful technology, as well as jobs in an area with high unemployment. But it will cost $20m to modernise the yard, and it is not clear

what future use Chile could make of the knowledge acquired. Civilian defence pundits argue that secondhand, or cheaper, hardware would be better. But the government says plans for the frigates and the F-16s are unlikely to be cancelled.

Brazil, with a far larger territory and more obvious security threats (such as drug traffickers and Colombia's wars), is also seeking a new fighter plane. On August 1st, it invited tenders to supply up to 24 aircraft as part of a $3.4 billion programme to modernise the air force's creaking fleet. Like Chile, Brazil insists that it is merely replacing obsolete equipment, not triggering a South American arms race.

Certainly, few other countries in the region have the means or the appetite to match Chile's bloated military establishment. Peru's new president, Alejandro Toledo, has called for a freeze on military spending, to free resources to fight poverty. He has a point. And more defence co-operation might go further than new jets.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD THE AMERICAS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Security in Brazil

Bullet-proof in Alphaville

Aug 16th 2001 | SAO PAULO
From The Economist print edition

The high price of protection from street violence

FOR the man who has everything and wants to keep it, a bullet-proof car and a house in a gated community with 24-hour guards are coming to be seen as essential in Sao Paulo, Brazil's business capital. Fear of robbery or kidnap is driving even middle-class citizens with fairly modest incomes to spend heavily on personal security. Recent strikes by police in several parts of the country have done nothing to increase Brazilians' confidence in the state's ability to guarantee law and order.

Business has never been better at O'Gara-Hess's armour-plating works in Alphaville, a gated enclave on the edge of Sao Paulo, where many of the firm's customers live. Alongside the fancy sports-utility vehicles, BMWs and Volvos being fitted with bullet-absorbing panels and thickened windows is a humble Volkswagen Golf. It is worth rather less than its armour-plating (cost: $30,000), but driving a cheaper car has become a popular way to avoid attracting attention.

Demand for bullet-proofing soared in Sao Paulo after it showed its worth in a failed attempt in 1999 to kidnap the children of Jorge Paulo Lemann, a banker. Their armour-plated car withstood a hail of bullets. Such planned kidnaps have become increasingly common in Brazil (though still much less so than in Colombia). Sao Paulo's police also recorded 897 “lightning kidnaps” (hold-ups, mainly of motorists) in the first half of this year. That was 20% fewer than in the same period last year, but is probably an underestimate.

Since the Lemann case, Brazil has overtaken Colombia, Mexico and the United States to become the world's largest market for bullet-proof cars, reckons Amaury Belmonte, O'Gara-Hess's sales manager. Around 3,000 cars were armour-plated last year, and the market is growing by about 15% annually. The number of armour-plating firms has risen from eight to 40 since 1999. Many of the newcomers offer cut-price bullet-proofing for the middle classes, charging less than half the rates of O'Gara-Hess. Though Mr Belmonte says his firm refuses requests to mount illegal tear-gas sprays, it will supply police-style sirens, which sometimes scare off attackers, and satellite-tracking devices.

Brazil's security forces worry about the growing number of civilians driving around in armoured vehicles, some of whom could be criminals. A new state law in Sao Paulo will shortly require all armour-plating firms to hand over to the police their clients' names and addresses. Given the extent of corruption and criminality within the police, that terrifies many customers. They are rushing to re-register their cars in the name of specially created companies, says Mr Belmonte.

Those who can afford it escape street violence—and Sao Paulo's traffic snarls—by helicopter. Some 450 helicopters now operate in the city, more than anywhere outside New York. Sao Paulo has two heliports; two more are being built. Many hotels and office blocks have installed helipads on their roofs. Mr Lemann was recently reported to have bought a $7.5m helicopter capable of zipping him between meetings in Sao Paulo and Rio de Janeiro at more than 300kph (190mph). But the growing swarm of helicopters has brought new safety worries: one crashed on to a factory roof near Alphaville in April, killing the businessman who was piloting it and his three passengers. Had it come down in a crowded street, the carnage could have been appalling.

Most middle-class urban Brazilians already live in apartment blocks with 24-hour doormen. Increasing numbers are now moving to American-style gated communities—whole neighbourhoods of spacious houses set in well-clipped parkland, surrounded by high perimeter fences and equipped with security patrols and CCTV. The first such scheme was Alphaville, named, rather oddly, after Jean-Luc Godard's bleak 1965 film about a futuristic city run by a tyrannical computer. The Alphaville Urbanismo company recently completed the fifteenth gated community in its Sao Paulo colony, and is busy building others in

cities all over Brazil. It, too, now faces cut-price competitors which see a market for personal security among less wealthy but no less nervous Brazilians.

Last year, the government launched a grand scheme to improve public security, promising extra money for state police forces. But nothing much has happened. So it is not surprising that Brazilians with money are spending an increasing share of it on trying to protect themselves. Ib Teixeira, an economist at the Getulio Vargas Foundation, a management school, calculates that private spending on security now totals 24 billion *reais* ($9.5 billion) annually, and is growing at 5% a year. That compares with 18 billion *reais* of public spending on policing. The 1.5m private security guards outnumber the police by three to one.

Private security may well provide protection to those who can afford it. But it leaves them less inclined to pay for better public security. For Brazil, the risk is that the privileged few will be less interested in improving their country's quality of life outside the security bubble in which they have enclosed themselves.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

India

How Hindu an India?

Aug 16th 2001 | AHMEDABAD AND DELHI
From The Economist print edition

Reuters

Hindutva, the quest for Hindu-ness, is alive and well

Hindu nationalism

MANJIT, candidate for a degree in computer science, believes that Christians and Muslims are plotting to take over India by marrying Hindu girls. This far-fetched notion is probably shared by hundreds of the other young men carrying ritual daggers tucked into their saffron sashes who turned out on August 13th for a rally staged by a Hindu youth group in Ahmedabad, Gujarat's commercial capital. “Islam is not of this culture,” observed one speaker. Their cheers were almost within earshot of a Muslim neighbourhood.

Some Gujaratis call their state “the laboratory”. It is ruled by the same Hindu-nationalist party, the Bharatiya Janata Party, that governs India at the head of a 19-party coalition. In Gujarat, though, it rules alone with a decisive majority. Nervous witnesses suspect that the ranting of the Bajrang Dal, the group that staged the rally, is the sort of rhetoric that the BJP would spread across India if it dared.

The party has tried to lay such fears to rest during its three years in power at the centre. But it cannot disavow the Bajrang Dal entirely. Both belong to the “*sangh pariwar*”, or “family of associations”, a term outsiders apply to a loose-knit family of 30-odd nationwide organisations that draw inspiration from the Rashtriya Swayamsevak Sangh (RSS, the “national association of volunteers”). That links India's reassuringly moderate prime minister, Atal Behari Vajpayee, to the hotheads of Bajrang Dal.

The connection is the fulcrum of Indian politics. The opposition pointedly calls itself “secular”, citing the constitution, which bars the state from promoting any religion. The BJP's ideologues maintain that secularism as practised in India has denied equal treatment to Hindus, who make up four-fifths of the population, and exposed Hindu culture to such threats as conversion and Islamic fundamentalism. The redress they seek worries minorities and, many fear, threatens India's secular traditions. This struggle between secularism and Hindutva (Hindu-ness) is India's main ideological conflict.

The opposition pointedly calls itself “secular”, citing the constitution, which bars the state from promoting any religion

But the battle lines are fuzzy. Most of the BJP's coalition partners, partly dependent on the votes of minorities, side with the secularists. They have obliged the BJP to suspend its most contentious proposals, such as building a temple in Ayodhya where a mosque stood until it was torn down by Hindu zealots in 1992, and replacing family law based on religion, which accommodates Muslim traditions, with a uniform civil code for everyone. Its leaders are practised at making Hindutva sound unobjectionable. The BJP's “core belief is nationalism”, says Narendra Modi, a general secretary of the party. Madan Das Devi, a leader of the BJP's

mother organisation, the RSS, defines Hindutva as “a way of life which accepts that all ways reach to one place, which is God”. Who but a fanatic could object to that?

But the RSS's Hindutva is not cuddly and has not been tamed. In Delhi, the BJP is subtly promoting it in the arena where it may matter most, education. Last November the National Council of Educational Research and Training (NCERT) issued a curriculum framework, which states can (but need not) use for their own schools. The BJP's cultural agenda is packaged in appeals to patriotism. The curriculum should be “rooted in [India's] indigenous tradition”. Because India is “the most ennobling experiment in spiritual co-existence”, it should stress values. Most of the BJP's allies see nothing to object to. “If we feel confident about our history, we should revive knowledge and pride in that heritage,” says Jaya Jaitly, a leader of the Samata Party, a coalition member.

To secularists, though, the curriculum framework marks a new front in a *Kulturkampf* against pluralism and modernity. Arjun Dev, former head of the NCERT's department of education in social sciences and humanities, says the document is “designed to promote exclusivist, chauvinist ideas”. It demotes science and social concerns as a source of values in favour of religion and warps the former by glorifying Indian contributions to it. On August 6th education ministers from nine opposition-ruled states demanded that the NCERT framework be scrapped.

Critics fear that what begins with squabbles about education can fuel the crudities of the Bajrang Dal. The group is often accused of attacking members of minority groups, most recently a Catholic priest in Maharashtra in revenge for the claimed killing of four RSS activists in the north-east by Christians. Some of these allegations may be wrong. But the Bajrang Dal does train some of its adherents in the use of weapons. Its behaviour reveals what the well-oiled rhetoric of the BJP hides: that Hindutva needs defence only if non-Hindus are regarded as threats.

It is hard to say precisely how far India's elected leaders are responsible for the excesses of the zealots. The *sangh pariwar* is a disjointed beast. The mother organisation, the RSS, is dedicated to “character building”, mainly through 40,000 daily group exercise sessions called *shakhas*, in which members in military-style khaki shorts drill with sticks and salute a saffron flag.

The most zealous volunteers are to be found in the ranks of scores of its daughter organisations, including the Vishwa Hindu Parishad (World Hindu Council, of which the Bajrang Dal is the youth wing) and a trade union. Each has its own charter, officers and sources of funding. Normally, they rally round the BJP at election time; between polls, relations between the party and its siblings can be bitter. Political power has forced the party to make compromises that enrage ideologues. The head of the RSS-linked trade union recently called the finance minister a “criminal” for proposing labour-law liberalisation.

Yet the *sangh pariwar*'s fragmentation can be a strength. It operates like an idealised version of the caste system: each component works towards the same end but in its own way. One part need not assume blame for what others do.

Secularists fear that BJP-ruled Gujarat represents the party's true ideal. One of the most economically successful states, it is also one of the most polarised. Human-rights activists say its government has conducted or tolerated countless abuses of minorities, including malicious textbooks (one describes Muslims, Christians and Parsis as “foreigners”) and an attempted survey of minority groups (ruled unconstitutional). The police allegedly ignore attacks on minorities. “A type of fascism is slowly emerging,” says Father Cedric Prakash, a human-rights campaigner. Gujarat's chief minister, Keshubhai Patel, insists that his state is a laboratory only for tolerance and economic success.

Gujarat's fraught atmosphere cannot be blamed entirely on the BJP. The state's history of religious violence goes back decades: in Ahmedabad, Hindus and Muslims have been quitting each other's neighbourhoods since the mid-1980s. Some objectionable textbooks predate the party's accession to power. But at least large-scale rioting has declined since the BJP took over. The secularists hope that the rest of India is too democratic and diverse to fall for the blandishments of Hindutva. But no one is taking it for granted.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Pakistan

Power games

Aug 16th 2001 | LAHORE
From The Economist print edition

A military shadow over “civilian rule”

EPA

Musharraf reassures the military

THE president of Pakistan, General Pervez Musharraf, promised this week to hold a general election, but not until October next year. He will thus be stretching the period of military rule to the limit permitted by the Supreme Court. But at least the general has been more accommodating than a previous military ruler, General Zia ul Haq, who seized power in 1977 and did not hold a general election until 1985, despite the Supreme Court's order to do so “as soon as possible”.

The much-awaited announcement in Islamabad came on August 14th, Pakistan's independence day, during a speech by General Musharraf before an audience of several hundred “people's representatives” elected in local contests on August 2nd. This was the first stage of his plan to “transfer power from the bureaucracy to the people”, he said. In the second stage, between now and June 30th next year, the government intends to “introduce a mechanism of checks and balances” on the exercise of power by elected politicians. A military-dominated National Security Council (NSC) is likely to be set up, standing above the cabinet and parliament, “to ensure continuity of the democratic process and reforms”. This will be done, said the general with a straight face, “in order to avoid military intervention in the future”. Elections would be held in the third phase, while the last phase of the “transfer of power” would end in November 2002.

The constitutional changes envisaged before the general election are meant to ensure that real power is retained by the armed forces. Presumably the NSC, chaired by the president, will have the power to fire the prime minister and/or parliament. As things stand constitutionally, the president is a ceremonial figure who appoints provincial governors and service chiefs only upon the advice of the all-powerful prime minister.

General Musharraf, who appointed himself president in June, gave no clues about what his position in the new set-up will be, through presumably he intends to remain in office. He could, like General Zia, acquire legitimacy through some sort of carefully choreographed referendum before the general election, possibly one based on the votes of the local mayors elected recently. Or, as is more likely, he might simply demand that parliament should ratify his status (or elect him) as president for five years along with the other proposed constitutional amendments, in exchange for a right to function.

A harder problem will be how to deal with the country's three main political parties, all estranged from the military government, after the general election. The army has succeeded in splitting the Pakistan Muslim League of the former prime minister, Nawaz Sharif. But it has had no such luck with the Pakistan People's Party (PPP) of Benazir Bhutto, also a former prime minister, and the Muttahida Qaumi Movement in Sindh province, led by Altaf Hussain. All three leaders are in forced exile, facing various charges ranging from terrorism to corruption. Although their parties will be allowed to contest the general election, General Musharraf insists that the leaders will be barred from taking part.

That may be easier said than done. Although Mr Sharif's supporters fared badly in the local elections and Mr Hussain's boycotted them, Miss Bhutto's candidates swept Sindh province and made a powerful comeback in Punjab and North West Frontier provinces. Indeed, on current form and barring electoral rigging, the PPP can be expected to win the most seats in parliament next year. What then?

Some observers suggest that Miss Bhutto may do a deal with General Musharraf, committing her party to his plans for constitutional change and staying out of parliament herself in exchange for her imprisoned husband's freedom and a degree of power-sharing. As a budding politician himself, General Musharraf may not be all that averse to such a cynical arrangement.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Water in China

In deep

Aug 16th 2001 | DANJIANGKOU, HUBEI PROVINCE
From The Economist print edition

Following up on Mao's big idea

WITH much of northern China fast running out of water, the government is favouring a plan championed by Chairman Mao half a century ago. Water would be diverted to the north from the Yangtze River basin hundreds of kilometres to the south. Chinese officials say work on what would be one of the world's biggest water diversion schemes is likely to start next year. But quite apart from being colossally expensive, the project may well do more harm than good.

Beijing gets most of its drinking water from a single reservoir which these days, thanks to successive droughts and soaring consumption, is a third as full as it once was. Farmers and industries are pumping water out of the ground so fast that in 15 years Beijing's water table will be drained. The Yellow River, on which much of northern China depends for its industry and agriculture, now often dries up before reaching the sea. More than half of China's cities suffer water shortages. This year has seen one of the worst droughts in decades.

But some experts are sceptical about the scheme, much as it appeals to a leadership fond of grandiose solutions to ancient problems. So far, though, it has not aroused the bitter controversy that the equally vast plan to dam the Yangtze at the Three Gorges did before its approval in 1992. In the north, water is needed badly and the project does not threaten an area as beloved as the scenic Three Gorges. But like the earlier one, the new scheme will do considerable damage to the environment and cause massive disruption to many lives. It will also provide no more than a partial solution to China's problem.

The diverted water would follow three main routes. The western section would involve tunnelling through mountains to link the headwaters of the Yangtze and Yellow rivers. The central route would require building a canal and aqueduct some 1,240km (770 miles) long to the Beijing area. The 1,150km eastern route would mostly follow existing water courses, including that of the ancient Grand Canal.

For the time being, Chinese officials are focusing on the technically less challenging central and eastern routes, which would cost some $20 billion. The eastern route, however, presents a major problem—the water would pass through some of the country's most polluted rivers. Bringing in a supply of polluted water would be of very little use to northern China.

The central route is therefore likely to be the first to get under way and could be completed by 2010. But there are considerable drawbacks to this part of the plan too. The level of the Danjiangkou reservoir would need to be raised by 13 metres (43 feet). More than 200,000 people would have to move. Many would move higher up the surrounding hills, chopping down forest and exacerbating already serious soil erosion. Downriver of the Danjiangkou dam, the water level of the Han River, a major tributary of the Yangtze, would drop, making it more prone to fish-killing algae. Officials say that this problem could be alleviated by pumping water from the Three Gorges reservoir into the Han River.

Some experts in Beijing argue for a different tack. Tackling pollution, using recycled water and forcing people to save water by raising absurdly low prices would go a long way towards alleviating the north's problems, they say. Once these measures were in place, the diversion plan could be reconsidered. One of China's best-known critics of the government's big water projects, Dai Qing, says officials have

suppressed debate about the scheme. “They'll make a lot of money on the side through corruption,” she argues. “It doesn't matter to them whether it works or not.”

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Japan

Harder times for Koizumi

Aug 16th 2001 | TOKYO
From The Economist print edition

His shrine visit won't help Japan's prime minister mollify the right

AP

IT WAS a fudge—and not a very successful one at that. Junichiro Koizumi, Japan's new prime minister, had pledged before his appointment in April to go to Yasukuni, a controversial shrine for the war dead, on August 15th, the anniversary of Japan's surrender in the second world war. Last month he started publicly wavering, as protests, both inside and outside Japan, got louder. When he eventually went to Yasukuni, two days earlier than promised and with a minimum of warning, he pleased few and angered many.

Mr Koizumi, the first sitting prime minister to pay an official visit to the shrine in 16 years, had hoped that the change in date and a carefully prepared statement acknowledging Japan's wartime aggression would mollify critics. He was wrong. China, South Korea, and other Asian countries were furious that he went to a shrine which honours, among millions of other war dead, 14 “Class A” war criminals, and were not in the slightest bit mollified by his changing of the date. Tensions that had been running high following a row over Japanese history textbooks that omit reference to the sexual exploitation of local women by Japanese occupation forces rose even further: in South Korea a group of particularly incensed men each cut off a little finger in protest. Japan's foreign ministry, led by Makiko Tanaka, its minister, is now scrambling to patch things up.

Mr Koizumi also lost support at home. Those who opposed his Yasukuni trip—New Komeito, his main coalition partner, and most of the opposition parties—were angry that he went at all. Worse, those in his own Liberal Democratic Party (LDP) who wanted him to go on the 15th were upset because he partially caved in to what they call pressure from the political left.

The loss of his conservative chums comes at a bad time for Mr Koizumi. His cabinet has just approved a stringent set of budget guidelines for 2002, which trim overall government spending by 1.7%, the biggest cut ever. The prime minister, it seems, is determined to stick to his promise of capping new issues of government bonds to less than ¥30 trillion ($246 billion) next year. He ventured into sacred LDP territory, slashing public-works spending by 10% or ¥9.3 trillion. The folk in the LDP, mindful of their constituents, will now start fighting for their pieces of the shrunken pie. With few allies and lots of enemies, Mr Koizumi may find it hard to control the rows that will surely erupt in the coming weeks.

He will have to do battle himself if he is to push through administrative reforms to sort out Japan's debt-ridden public corporations, such as the Japan Highways Public Corporation and the post office. Not only does he face strong resistance from the bureaucrats that oversee them, but he is likely to clash with many politicians who rely on these groups for support. As for his structural reform plans for the private sector (which he has yet to unveil), these too are unlikely to be greeted kindly by many members of his party.

Mr Koizumi has ended up wasting precious political capital by going to Yasukuni. He has even lost some credibility with voters. His strongest support group, ordinary voters, cared little about his visit to the shrine, but were left with the impression that Mr Koizumi backs and fills when the going gets tough.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

East Asian economies

To spend or not to spend?

Aug 16th 2001 | BANGKOK
From The Economist print edition

Some governments are opening the spigots, others are afraid to

THE last time they collapsed, during the crisis of 1997-98, East Asia's economies could at least fall back on healthy fiscal balances. That virtue gave them an edge over other emerging markets, and after a little wrangling with the IMF their governments began spending freely to help offset falling exports and investment. Four years on, however, the region has been gripped by a second downturn, this one global. And after borrowing heavily last time to bail out banks and boost demand, Asian governments' debt levels are now much higher than before. This time round, can they afford to prime the pumps?

Although some clearly can, it is surprising how few are trying. Indeed, investors are actually urging some countries to spend more. South Korea's government, for example, has plenty of scope to do so, but delays in the National Assembly continue to hold up its plans. The government actually ran a budget surplus of 1.1% of GDP last year, and has fallen well short of its spending targets in the first half of 2001. Some onlookers have also wondered why Singapore does not spend more, since it has a large surplus while its exports, and its growth, are falling sharply.

In the region's most troubled economies, by contrast, governments would like to prime the pumps, but higher debt-service costs and wary currency traders are making it more difficult. In the Philippines, for example, Gloria Macapagal Arroyo inherited a runaway deficit from her predecessor, Joseph Estrada, when she replaced him as president earlier this year. Far from spending her way out of trouble, she has implemented an austerity plan, and is trying to overhaul the tax system to capture more revenues from the economy. Her government continues to hit its monthly deficit targets, which provide for a 2001 shortfall of around 145 billion pesos ($2.7 billion). Such efforts may eventually help to restore confidence, but will bring little solace during the current global slump.

Indonesia's fiscal problems are even worse: although analysts debate Mrs Arroyo's austerity package, almost all of them agree that Indonesia's new president, Megawati Sukarnoputri, needs to get the government budget under control. Fortunately, Miss Megawati has had a good week. The currency rallied sharply as her new economic team continued to make soothing noises. By mid-week it had reached 8,485 rupiahs to the dollar—a rise of 31% since she took office last month. With public debt at over 100% of GDP, more than half of it external, a stronger currency could ease debt-service costs.

The rupiah's recent rebound, however, should be heralded with caution. It is a volatile currency partly because the markets in which it trades are so thin. This week's spike followed promises that the Indonesian Bank Restructuring Agency will at last begin selling assets seized during the last economic crisis. But if Miss Megawati's team fails to press ahead, Indonesia will suffer a triple blow: the government will lose the proceeds it needs to plug its deficit; foreign capital will not flow in to buy the assets, thus weakening the rupiah; and an unamused IMF may halt Indonesia's efforts to restructure its debts yet again.

A few Asian governments are still trying to spend their way out of trouble. Malaysia will run a fiscal deficit of more than 4% this year (even including revenues from its state-owned oil giant, Petronas). Although many analysts doubt whether that money will yield worthwhile infrastructure, and give warning that it may postpone badly-needed restructuring, they all agree that it will help offset the short-term plunge in Malaysia's exports. They also agree that Malaysia can afford to keep borrowing for a while yet.

They worry even more about Thailand, where the prime minister, Thaksin Shinawatra, won office this year by promising several measures to boost rural incomes. Mr Thaksin is also planning a 58 billion baht ($1.3 billion) stimulus package for the year beginning October 1st. More confusingly, he sacked the central-bank chief earlier this year so that he could raise interest rates, a policy that will make his fresh borrowing even more expensive. For now, however, the farmers come first.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The Palestinians

The several voices of Palestinian authority

Aug 16th 2001 | JERUSALEM
From The Economist print edition

Can Yasser Arafat crack down on the Islamist suicide-bombers?

Get article background

EPA

"PALESTINIANS will pay a political price for taking the path of terror," said Israel's prime minister, Ariel Sharon, after a Hamas suicide-bomber killed 15 Israelis in Jerusalem on August 9th, and another bomber wounded 20 people in Haifa three days later. The army has "a bank of targets", most of them Palestinian Authority (PA) facilities, added Israeli officials, and these can and will be hit at will.

As it happenend, Israel took over nine Palestinian institutions in occupied East Jerusalem, including Orient House, their de facto political headquarters in the city. Israeli tanks swept into Palestinian-controlled Jenin, destroyed a police station, and then swept out again. On August 14th Israel deployed tanks round Beit Jala, a Palestinian village near Bethlehem, after a day of heavy firing from there on Gilo, the next-door Israeli settlement. Any more shooting at Gilo, said the Israelis, and the tanks would go rolling in.

Mr Sharon's tactics are plain: the longer Yasser Arafat delays arresting the suicide-bombers of Hamas and Islamic Jihad, the more "political assets" he and the PA will lose. Mr Arafat has arrested a few men and released a few others. But his main reaction to Israel's asset-stripping is diplomatic sound and fury. Palestinian spokesmen say there can be no ceasefire until Israel re-opens Orient House, and they have asked for a meeting of the UN Security Council to dispatch an international protection force to the occupied territories.

They will not get one: the United States accepts Israel's argument that the onus is on Mr Arafat to end the violence by cracking down on the suicide-bombers and those who send them. President George Bush, much to Israel's gratification, has repeatedly urged Mr Arafat to make greater efforts to curb the terrorism, implicitly blaming the Palestinian leader for the continuing deterioration.

Will Mr Arafat do what is demanded of him? The more relevant question is whether he can. Ten months into the *intifada*, Hamas and Islamic Jihad are riding high. Their suicide or "martyrdom" bombing operations are popular with Palestinians living in their besieged self-rule areas. Even more important, the Islamists made some astute decisions at the outset of the uprising last September.

One of those decisions was to follow Mr Arafat's Fatah movement into armed resistance rather than chart an independent course, as they did in the first *intifada* in the 1980s. Politically, the new unity is represented in the National and Islamic Forces (NIF), a grassroots body that sets the uprising's tempo, and has both Fatah and Hamas as its core members. Militarily, the unity is seen in the mixed guerrilla units which now ambush Jewish settlers, bomb soldiers and fire on settlements in the West Bank and Gaza. The result is that political power is devolving from the PA to the nationalist and Islamist factions.

On August 7th the PA announced that Mr Arafat would start talks with Hamas and Islamic Jihad with a view to setting up a new "national unity" government. Islamic Jihad was sceptical, but Hamas welcomed the move, insisting, however, that any new coalition must mean a root-and-branch reform of government rather than "the creation of ten more ministries".

Mr Arafat will almost certainly not do this. Old autocrat that he is, he has no problem with Islamists

sitting in a largely meaningless “Palestinian cabinet”. He does have a problem with them, or with anyone else, taking real power out of his hands. But the fact that he is now compelled to talk with the Islamists, rather than incarcerate them, shows how diminished his room for manoeuvre has become. It also shows the extent to which traditional Palestinian nationalism is becoming leavened with religious content.

In the first *intifada*, and for most of the Oslo peace process, Palestinians were inclined to see the Israeli peace camp as their allies, bound by the common view that peace would be possible after Israel withdrew from the occupied territories. That has changed. On August 10th the NIF called on all “Arabs, Palestinians, Muslims and Christians” to protest at Israel's occupation of Orient House. The Israeli peace camp did not get a mention.

The Islamists tend to take a long-term and abstract view: they want the uprising to move away from “peace” with Israel and to radicalise the Arab and Islamic worlds. Their words are not clear, but they sound the alarm. “Ours is not just a struggle for land,” said a Hamas fighter in Gaza. “It is a struggle of civilisation.”

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com
WORLD
MIDDLE EAST & AFRICA
PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Israel's peace camp

The forgotten ones

Aug 16th 2001 | JERUSALEM
From The Economist print edition

The discomfort of Israeli peaceniks

Get article background

WHAT is Israel's “peace camp” doing inside Ariel Sharon's government? The worse things get on the ground, the more Shimon Peres and his Labour cabinet colleagues writhe in discomfort, assailed by many on their own side for staying in the government, beset by haunting thoughts of what Mr Sharon would get up to if they left.

A particularly tormented writhe at the weekend resulted in an agreement between Mr Sharon and Mr Peres to allow the foreign minister to seek new negotiations with the Palestinians about how to get a ceasefire. This was a softening of Mr Sharon's insistence that there can be no negotiating under fire, but his aides say that this is not so, since Mr Peres's mandate is limited to a ceasefire.

Mr Peres's aides say that the talks would move seamlessly from military to political matters as the two sides discussed the series of “confidence-building measures” they are committed to implementing as soon as the violence stops. Frustratingly for Mr Peres, however, the argument over what to negotiate remains notional since the Palestinians, publicly at any rate, are refusing to negotiate with anyone about anything until Israel allows Orient House, their Jerusalem headquarters, to be reopened.

Mr Peres's closest disciple and keenest critic, Yossi Beilin, a former minister and leading Labour dove, is canvassing his own plan: another Madrid peace conference on the Middle East, ten years after the original one took place, in October 1991. That one is credited with giving birth, in a back-handed sort of way, to the once promising Oslo process. Mr Beilin believes a Madrid II, attended by George Bush and other world leaders, could perhaps still salvage what is left of Oslo—before nothing remains at all.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Zimbabwe

A storm worsens

Aug 16th 2001
From The Economist print edition

What can outsiders do about Zimbabwe?

MOBS attack white-owned farms, police stand by and watch the looters, scores of farmers and farmworkers are arrested. The editor of the country's main independent newspaper is thrown in jail for reporting accurately. An activist for the opposition Movement for Democratic Change (MDC) dies in prison. The government threatens a state of emergency. The news from Zimbabwe seems to get even grimmer by the day.

AP

Wrecked, just like the country

More oppression is inevitable ahead of presidential elections, expected in April next year. Attacks continued this week on some 100 white-owned farms around Chinhoyi, a town 120km (75 miles) north of Harare, forcing the owners and their families to flee. The attacks seemed to be orchestrated, and police refused to intervene. Some reports suggested they were spreading to other parts of the country.

Less noticed by outsiders, but probably more important, screws were tightened on the opposition and the press. Geoff Nyarota, editor of the independent *Daily News*, and three other journalists were arrested and charged with publishing “false news”. The newspaper reported that police were involved in looting white farms. The High Court released them, declaring the charges illegal. The opposition leader, Morgan Tsvangirai, said this week the attacks on whites, who are seen by the government as backers of the MDC, were a crude attempt to scare off its supporters.

Mr Mugabe presents the crisis as a land dispute between white farmers and land-hungry black Africans, or even as a spat with Britain, the former colonial power. That fires up his supporters and helps draw support from other Africans. But it is clear that his real concern is not land but the rise of the opposition party, just as the economy plunges into a deep hole.

Remarkably, this week some neighbours spoke out about the awful state of Zimbabwe. At a meeting of the Southern Africa Development Community (SADC) in Malawi, leaders from the 14 member countries unexpectedly declared they were worried “that the spillover effect from the Zimbabwe crisis will affect our countries”, and promised dialogue with President Robert Mugabe. Flaccid stuff, with no mention of the political repression. But it was the first sign that other African countries are worried by Mr Mugabe's misrule and the economic consequences.

The next test of African opinion will be at a meeting in Abuja, Nigeria, on September 6th, where Commonwealth countries will hold talks with Zimbabwe. Mr Mugabe wants the talks to focus on land, not democracy, human rights and the rule of law. But Nigeria, which is chairing the talks, has made it clear that it wants all these subjects on the agenda.

Soon after that, the economic mess is expected to worsen as inflation rockets and the currency threatens to crash. Food shortages will be even more likely as the most productive farmers flee their land and the government lacks hard currency to pay for imports. Foreign donors will have to decide whether to deliver food aid, which could be diverted by the ruling party for electioneering purposes. By October the European Union may also have come up with a policy of targeted sanctions, such as travel restrictions on Zimbabwean ministers and their families.

In the same month, heads of Commonwealth governments meet in Brisbane, Australia, where Zimbabwe

will dominate the agenda. At this meeting African leaders will come under more pressure to isolate Mr Mugabe. If more African countries are ready to turn against him, South Africa may dare to stick its neck out further, without risking the label of western lackey. Last week South Africa's president, Thabo Mbeki, conceded that his policy of “quiet diplomacy” towards Zimbabwe had achieved nothing, though a spokesman later denied that a more outspoken policy was likely. But South Africa could, if it felt the time was right, cut off supplies of fuel, food, electricity and other imports to its northern neighbour.

Also in October, the United States Congress is expected to complete the passage of a bill to promote democracy in Zimbabwe, which threatens measures similar to ones the EU might impose, if the country's human-rights record does not improve. Mr Mugabe's government has already threatened to declare a state of emergency if that happens. An election of any sort would then seem unlikely.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Angola

UNITA—down but not out

Aug 16th 2001 | LUANDA
From The Economist print edition

Rebels are attacking government areas in an attempt to stop elections

THE rebels' sense of timing is flawless. In June, just as President Jose Eduardo dos Santos was telling a summit in Zambia that the rebel movement, UNITA, was all but done for, it launched a four-pronged attack on the northern provincial capital of Uige. Last week it struck again, putting an anti-tank mine on one of the country's few operating railways, 150km (92.5 miles) south-east of Luanda. As survivors fled from burning carriages, UNITA soldiers machine gunned them. At least 250 people died and over 100 were injured.

A week before, the president's advisory council had listed conditions for holding long-delayed elections next year. One was "the free movement of people and goods". With awful logic, the train hit by UNITA was carrying both. And it was hit as an American-sponsored mission was in Angola to assess the viability of elections.

The Angolan army all but destroyed UNITA's conventional warfare capacity in 1999. Since then, the government has often predicted its imminent and total demise. With UNITA restricted to raiding in the central highlands or the Namibian border zone, it seemed that the oft-repeated battle cry of the ruling MPLA, "Victory is certain", might, after nearly 30 years of war, come true. At least with the war far off, the Angolan elite and influential foreigners slept easily in their Luanda beds.

Such complacency began to look silly in May, when UNITA raided Caxito—a mere 60km (37.5 miles) from Luanda. The guerrillas killed at least 100 people, raided stores and abducted 60 children. They caused what battle-weary Angolans call *confusao*—best translated as chaos and terror. In the ensuing months, *confusao* erupted again and again in the north-west and along the coast, areas previously seen as unchallenged MPLA territory. Frequent claims by the army that another UNITA base has been captured are invariably followed by news that the rebels have popped up elsewhere. The army is thinly spread, and trained for static warfare. With little territory to defend, UNITA has re-adopted guerrilla tactics. It has fighters and money. Sanctions notwithstanding, the rebels still earn about $100m a year from diamonds mined in areas they control.

Both President Dos Santos and Jonas Savimbi, the UNITA leader, have hinted for the first time since hostilities resumed in 1998 that they might be prepared to talk peace. Each insists that the other call a ceasefire first. By bringing the war almost to Mr Dos Santos's doorstep, Mr Savimbi is telling him that he may not be able to wait for a ceasefire on his terms.

Even if the fighting stopped tomorrow, a vote next year would do little more than prop up the MPLA's shaky democratic credentials. Victory may not be certain on the battlefield, but it is assured at the ballot box. Though *confusao* erupts regularly near Luanda, more suffering occurs in UNITA's traditional heartland on the central plateau. In Bié province, people are being forced to move as UNITA and government soldiers raid farms and villages. They arrive in towns, hungry and sick, and are shunted off to camps tightly controlled by the government. A remotely free and fair election is out of the question in such places. At the moment any meaningful election could only be held in MPLA territory. That in mind, UNITA is making sure that elections cannot be held anywhere.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Corruption in Kenya

Moi at bay

Aug 16th 2001 | NAIROBI
From The Economist print edition

Parliament has thrown out an anti-corruption bill and cost Kenya millions

Get article background

AN INDIGNANT President Daniel arap Moi descended on parliament this week to lead a government vote for the first time. Legislation to address corruption was in peril—and with it, millions of dollars in aid. But despite Mr Moi's visitation, the bill was thrown out. It would have enshrined an anti-corruption authority in the constitution but its opponents argued that it left the business of rooting out corruption firmly in the hands of the government, one of the most corrupt in Africa.

The IMF had approved the bill and promised that aid—worth some $300m—would flow again if it was passed. Now the bill cannot be resubmitted to parliament, except as an emergency measure, until March next year. By then, the country will be only months away from a potentially explosive election with its already-shrinking economy in free fall. That alarming prospect may have lured the IMF back to Kenya last year after three years away. Wary of President Moi's history of broken promises, it demanded an unprecedented 60 or so conditions for giving Kenya its blessing and its money. The most important was the establishment of the Kenya Anti-Corruption Authority (KACA) to investigate and try economic crimes.

While KACA stuck to middle-ranking offenders, it worked well. But late last year it investigated the water development minister, Kipn'geno arap Ng'eny, and the wife of the health minister, Sam Ongeri. The High Court stepped in and ruled the body unconstitutional. It was the final straw for the IMF, which had seen a series of agreed reforms, such as privatisations and budget cuts, unravel. It withheld a scheduled $200m loan to Kenya, and the World Bank held up $100m.

Unaccustomed to such consistency from the IMF, Mr Moi sacked his reformer-in-chief, Richard Leakey, and personally took over negotiations with the donors. Despite approval by IMF lawyers, the new-look KACA submitted to parliament was a far weaker beast than its predecessor. It gave amnesty for corruption crimes more than four years old, granted immunity to retired politicians and civil servants (that means all Mr Moi's corrupt old cronies) and gave the attorney-general the power to stop investigations.

Opposition MPs were irritated that parliament was being subordinated to the IMF's decree and were enraged by the amnesty clause. Musikari Kombo, an opposition MP, pointed out that the conflict between KACA and the criminal law was unresolved and that, as soon as the IMF coughed up the loans, the government could hijack KACA in the courts.

After falling 14 votes short of the two-thirds majority needed to effect constitutional change, Mr Moi told a rowdy crowd of supporters crushed against the parliament gates that the fight against corruption must go on, for the sake of impoverished Kenyans. How sincere was he? Perhaps he did think the passage of the bill would be enough to get him the aid money. But Mr Moi is supposed to be stepping down at next year's election and must think of a successor and of his own future. He could have lived with a watery version of KACA—as a former president he would have been immune from it anyway. But other measures the IMF still wants, such as a code of ethics which would force public servants to declare their private interests, could hugely reduce his ability to use patronage to safeguard his empire.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

War or peace in Macedonia

Will the doves really fly?

Aug 16th 2001 | SKOPJE
From The Economist print edition

Macedonia's rival ethnic parties have signed up to peace. The ethnic-Albanian guerrillas say they will surrender their weapons to a NATO force. It sounded unlikely, but it happened. Now to make words become reality

Get article background

EPA

THE omens were grim. Yet even when the fighting between Macedonian government forces and their ethnic-Albanian foes seemed to be raging out of control, western governments always gave the impression that things were going on behind the scenes that offered reason for hope. This week, astonishingly, hope took wing.

On August 12th, the facts on the ground could hardly have looked worse. The rebels had killed at least 18 government soldiers within a few days. A group of Slav-Macedonian workers captured by the rebels told a western human-rights group they had been tortured, beaten and sexually abused. There was fierce fighting in the heart of Tetovo, the country's biggest ethnic-Albanian city, and government forces were strafing and shelling smaller villages. A political agreement, initialled by politicians on both sides of the ethnic divide four days earlier at the lakeside town of Ohrid, seemed like so much hot air.

It proved more than that. The accord, which makes Albanian a second official language in some areas and guarantees the ethnic-Albanian community a bigger role in the police, was formally signed on August 13th—though Slav-Macedonian politicians seemed so embarrassed about the concessions they were making that there was a virtual news black-out inside the country. By mid-week, despite further claims of horrors, this time from ethnic-Albanian villagers, a ceasefire—albeit spottily observed—seemed to be taking hold, and NATO ambassadors meeting in Brussels swiftly approved the despatch to Macedonia of 400 British troops, the advance guard of a 3,500-strong force to be drawn from 12 countries.

Behind the scenes

The weak spot, to anyone relying only on public statements to decipher the situation, was the rebels' alleged readiness to cease fire, let alone disarm. How could the upper ranks of the the 19-member alliance really believe that their multinational force—whose only task will be to collect these weapons, under a voluntary demilitarisation plan—had a decent chance of extracting order from chaos?

In fact, there was a good, though virtually unacknowledged, reason for this confidence: the discreet working relationship that NATO envoys have established with the rebels of the National Liberation Army, a battle-hardened and politically skilled force whose aim is to re-make Macedonia as a sort of binational state.

The western-brokered talks in Ohrid between Macedonia's constitutional political parties took two weeks, sputtering on and off, to produce an agreement on the country's future—and the rebels were not even present at them. Yet the negotiations were underpinned by an informal understanding between NATO and the insurgents which was gradually taking shape.

The fighters made it plain they would welcome a NATO deployment if it sheltered them from the government's tanks and helicopters, and left them in de facto control of the north and west of the

country. Indeed, they would welcome it so much that they would declare a ceasefire. To this, NATO envoys replied that a ceasefire would not be enough; the rebels would have to hand in their weapons as well. Only that would give the country's Slav-Macedonian leaders the political leeway to sign an agreement that seemed to give away so much.

This understanding, which was being fine-tuned in behind-the-scenes discussions at the height of last week's fighting, provides the basis for the NATO intervention, which is expected to be in full swing—barring unpleasant surprises—during the last ten days of August.

British officials were at pains this week to stress what the intervention force was not: it was not a peacekeeping force, it would not interpose itself between warring parties and it would not stay around long if either side started shooting at it.

That, to be exact, is the theory. But privately, NATO's political leaders are counting on the hope that the mere presence of a highly professional, multinational force—including British, French, Italian and German troops, among others—will have an important stabilising effect.

If there is a flaw in that theory, it may lie in the intense distrust which some Slav Macedonians—politicians and ordinary people alike—now harbour towards NATO and all its works. Ever since the war broke out, there has been a growing feeling in Skopje, the capital, that Macedonia is paying a terrible price for what Slav Macedonians see as the scandalous leniency that NATO has shown in its protectorate of Kosovo towards Albanian extremism and its spill-over into Macedonia.

Precisely because the military intervention is being carried out on terms, including an amnesty, which look quite favourable to the ethnic Albanians, the Slav Macedonians are inclined to see it as a sell-out of their hard-won statehood. For example, in a change which many will find painful, the constitution will no longer describe Macedonia as the homeland of one ethnic group, but simply as a state in which all its citizens, regardless of ethnic origin, have equal rights.

The peace plan seems to have the reluctant approval of President Boris Trajkovski. On August 15th, his office asked the speaker of parliament to convene a session with constitutional reform on the agenda. But just how will hardline Slav-Macedonian nationalists react? Ljubco Georgievski, the prime minister, though more of a nationalist than the president, put his name to the accord. But it looks highly possible that angry supporters of his VMRO party—some of them well-placed in the security forces—will continue to oppose the idea of a brave new Macedonia and will try to sabotage it.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Hyphenated Macedonians

Slav, or not?

Aug 16th 2001
From The Economist print edition

“Slav Macedonians”, most of the world calls them. Just “Macedonians”, say they

Get article background

IS IT “derogatory”, “insulting”, indeed “racist”, to use the phrase “Slav Macedonians” to distinguish that sort of Macedonian from those of ethnic-Albanian culture? Yes, say some angry readers of *The Economist*: we are plain “Macedonians”, and that's that. That's the name we give ourselves, use it.

But, hey, the ethnic Albanians are citizens too, aren't they—Macedonians, that is? And, alas, journalists have to distinguish one community from the other, and with clarity, not ambiguity. Why not like this? Lots of newspapers do.

Maybe, reply the angered Macedonians, but they shouldn't. Lots of people used to call Afro-Americans “niggers”. Would you feel entitled to do that?

Certainly not, this paper would reply: it's a poisonous word. But “Slav” is perfectly honourable: ask the 19th-century Russian Slavophiles or the creators of 20th-century Yugoslavia, the land of the south Slavs. And, applied to Macedonia's majority, it's accurate: their culture is manifestly Slavic. So why not?

Because we say not, reply that majority. You say it's inoffensive, but it offends us. You're denying our ethnic identity, and our idea of our own history

One reason for the discord is cultural. In Central and Eastern Europe, it is still common to speak of, say, “Poles” as distinct from “Jews”, even when all are Polish citizens; in Britain or France or the United States, the equivalent would sound and probably be deeply racist.

For Slav Macedonians, this way of thinking is melded with concerns peculiar to their own bitterly contested part of the Balkans. One is to affirm the existence of a historically distinct Macedonian nation, a nation extending far beyond the borders of the new Macedonia; and the more vigorously Serbs, Bulgars and Greeks deny this claim—Greece even objects to the new state's calling itself Macedonia at all—the more determined those who make it are. Another aim, to some Slav Macedonians, is to imply that their ethnic-Albanian fellow-citizens don't really belong—an implication, they remark, which many Albanians readily accept.

So what should western media do? The BBC has yielded to the complaints of Slav Macedonians, arguing from its principle of calling people what they call themselves, and “given how raw this story now is,” as an internal memo said in May, “and the BBC's profile in covering it.” The BBC believed that it could yield without compromising clarity. Its World Service almost daily proves it wrong, talking in one breath of “Macedonian” and “ethnic-Albanian” parties, and then, eg, of the latter objecting to the ethnic make-up of the “Macedonian” police. Meaning what?

Few are with the BBC. The *New York Times* refers to “Slavic Macedonians”, *Le Monde* to “*Macédoniens slavophones*”, *El Pais* to “*los eslavos*”. But the *Corriere* says “*i macedoni*”. The choice is not easy in Germany: its cultural tradition is Central European, but history has taught where distinguishing “Germans” from “Jews” can lead. The *Frankfurter Allgemeine* and many other newspapers speak of “*die slawischen Mazedonier*”.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Russia's sunken submarine

Deep-sea fudge

Aug 16th 2001 | MOSCOW
From The Economist print edition

Why did the *Kursk* sink? Why was its crew not saved? Don't ask the Kremlin

Reuters

Truth would be a better tribute

IF ALL goes well, the ill-fated *Kursk* will be lifted from the bottom of the Barents Sea next month, its nuclear reactor safely disposed of in a naval base and the remains of its 118 crew members buried where their close ones can mourn them in privacy. And very glad the Kremlin will be.

Full success for the $65m salvage operation might be enough to discourage further questions about why the sub sank in the first place during fleet manoeuvres a year ago, and who was to blame for the botched rescue efforts and a flood of lies that kept the crew's families in agony for over a week. Not that too many people are left asking these questions. The main privately owned television stations that at the time criticised President Vladimir Putin for his handling of the crisis have been brought under Kremlin control. And a public-relations campaign has kept minds fixed on the technical details of the salvage operation, and away from things like the government's role in the tragedy.

Mr Putin seems to have learnt a lesson. At the time he refused to interrupt his holidays, leaving inept officials to deal with the aftermath of the sinking. They failed with rescue efforts, arrogantly refused western help until it was too late and fed the public a medley of evasions, half-truths and outright lies. But the lesson seems to be less about the value of openness than about the need to fake it.

The experienced team of spin-doctors installed this summer to cover the salvage operation is headed by Sergei Yastrzhembsky, a Kremlin press officer famous for blocking the flow of information from Chechnya for the first 15 months of fighting there. He has been busy taking journalists to the scene of the disaster, and helping them get on board $800-an-hour helicopter flights to it. What they mostly see is fog. Meanwhile, the Kremlin's in-house cyber-mouthpiece, Strana.Ru, has launched a special *Kursk* site, while a slick English-language site displays computer graphics of the salvage plans.

While keeping foreign journalists with their impertinent questions away from last Sunday's commemoration of the sinking, Mr Yastrzhembsky's team has recast the unlucky crew of the *Kursk* as heroes dying for the fatherland. He never fails to mention that the costly and risky salvage operation by a Dutch lifting company is a fulfilment of the promise Mr Putin gave to relatives of the crew members during an emotional meeting last August, where he pledged to retrieve the bodies of their loved ones, regardless of the cost.

And the cause of the sinking? Or the blame for the long-drawn-out failure of rescue efforts? Outside experts think the *Kursk* was probably blown apart by a misfired experimental torpedo; Russian officials still stubbornly claim that it was in collision with a foreign submarine, or hit a mine from the second world war. Nor is there any sign that the parliament or any other institution is planning an independent investigation into what went wrong, before the accident or after.

Yet Russians were not born yesterday: opinion polls show that most believe the government knows all that there is to be known about the disaster, but has no intention of making it public.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD EUROPE
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Poland's coming election

The end of Solidarity

Aug 16th 2001 | WARSAW
From The Economist print edition

Twenty years ago an independent trade union called Solidarity brought Polish communism almost to its end. Solidarity's political heirs today face theirs

Get article background

WAS it a portent? Poland has been clearing up this month after the disastrous floods that struck it in July. Rivers across the country burst their banks, killing 30 people and sweeping livestock and buildings away. The same fate awaits the Solidarity government in the general election due on September 23rd.

Solidarity has had its ups and downs since the heroic days of 1980-81, when, at the Gdansk shipyard and in the coal mines, trade-unionists like the young Lech Walesa, later President Walesa, raised the banner that in time swept away Soviet-imposed communism and helped to bring down that tyranny in Russia itself. But today's down may prove the end.

That is a sad thought for all who remember the heroic past. But Poland's voters have to live in the world as it is. After some years as the star of ex-communist Europe, Poland—not just its government—is faltering. Last year foreign investors piled in with a record $13 billion. This year, they are likely to notch up barely half that amount. The overall mood is glum. Fewer Poles are taking their holiday abroad. Consumer confidence is at its feeblest since the post-communist recovery began in the mid-1990s. The economy, which swelled by almost 7% in 1997 and by 4-5% in each of the following three years, is growing at only 2% or so today. Some 16% of the workforce have no job, and the figure is rising, especially among the young.

Last autumn, President Alexander Kwasniewski, a founder of the ex-communist Democratic Left, was re-elected in a landslide. Opinion polls foresee a similar landslide victory for that party next month. In contrast, Solidarity Electoral Action (AWS), the ramshackle alliance in power since it won the general election of 1997, may not even reach the threshold (5% of the vote for parties, 8% for an alliance such as AWS) entitling it to any seats at all.

Solidarity is already a husk of its former self. Its free-marketeers and pragmatists have defected in droves to new parties, or simply dropped out. Only trade-union diehards, old-guard Catholic nationalists and loyalists who see nowhere else to go remain within the movement, as it flounders to find a plausible electoral platform.

Scandals beset Solidarity's hapless prime minister, Jerzy Buzek. In July three of his ministers had to resign over corruption scandals. Two of his government's most ambitious reforms, those of pensions and health care, are stuck in the mud. Much official business is grinding to a halt as good civil servants—and politicos—head for far better paid jobs in the private sector.

Things began to fall apart last summer, when the Freedom Union, the junior partner in the governing coalition and its most market-minded and liberal component, walked out. Not that that has helped the Freedomites: they too face the abyss. Ordinary Poles never warmed to the too-clever-by-half technocrats who ran the party. Its leader, Bronislaw Geremek, was a good foreign minister, but cuts a poor figure on the hustings. In private, some of his colleagues say they will do well to win even 3% of the vote—too little to win seats, but enough to entitle them to $1m in state funding and a chance to fight another day.

Is there no real contest, then? A few months ago, it looked as if a new centre-right party might rattle the Democratic Left. Now there are two parties in the middle that look likely to take over from Solidarity—but without much eroding the new left's expected dominance.

The stronger of the two newcomers is Civic Platform. It may well replace Solidarity as the main party of the centre-right, taking maybe 20-25% of the vote. It is new, it has won over a lot of the brighter defectors from Solidarity and the Freedom Union, and it calls to mind the sort of middle-of-the-road, pro-business party that prospers in Western Europe. Its pledges of a low flat-rate income tax and war on red tape appeal to the middle class (if less so to others). Its leading figure, Andrzej Olechowski, came second in last year's presidential contest without even a party to support him. The snag is that it has two other leaders, and all three have outsize egos.

Further right is Law and Justice. Pollsters guess at 10% for this newcomer, which inveighs against corruption and organised crime. It is run by a pair of twins, Lech and Jaroslaw Kaczynski. Lech was the current government's most popular minister (for justice), until Mr Buzek recently fired him for insubordination. Jaroslaw is the former leader of Centre Alliance, a now defunct party devoted to “decommunisation”. The twins may scoop up some of the conservative, anti-communist vote that used to go to Solidarity.

The likely new prime minister is Leszek Miller, a member of the last politburo of communist days, now refashioned as a pro-EU, pro-NATO social democrat who views Britain's Tony Blair as his model. Many businessmen still doubt that he has wholly junked his party's old zeal to meddle with the economy. Some remarks in a recent interview fuelled their suspicions—and caused Poland's currency, the zloty, to dive by 8% against the dollar. But Mr Miller is working to dispel such doubts. He is eagerly wooing young voters too. And his campaign slogan, “Back to normality! Let's win the future!”, appeals to Poles' desire both for stability and for modernisation.

Goodbye to Solidarity, then? Probably. And those heroic days, and the Gdansk shipyard? Well, the shipyard, privatised in 1998, employs 3,800 people against 18,000 in 1980, and its workers were protesting this week against further lay-offs. And Mr Walesa? Voted out of the presidency in 1995, and his image fallen much lower since, in last year's presidential election he won just 1% of the vote.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Turkey's generals and its civilians

Blast and counterblast

Aug 16th 2001 | ANKARA
From The Economist print edition

Civilians are becoming readier to question military influence

AP

Guarantors of orders

ARE those epaulettes losing some of their sheen? Turkey's generals are under fire from its politicians. The first shots came from Mesut Yilmaz, leader of the conservative Motherland Party and a deputy prime minister in the three-way coalition government. With rare boldness, he told a party congress earlier this month that Turkey's "national-security syndrome" was the main obstacle to democratic reforms sought by the European Union. What he meant was the generals' objections to things like looser restrictions on use of the Kurdish language or a dilution of military influence in politics. "If Turkey wants to move forward," quoth Mr Yilmaz, "it must free itself of this syndrome...or we will miss the EU train."

The generals see themselves as the guarantors of legitimacy and order, especially Turkey's secular order: they have repeatedly stamped on Islamist political parties (only to see fresh ones spring up, as one did this week, led by Tayyib Erdogan, an ex-mayor of Istanbul and one of the most popular politicians). Back came a ferocious counterblast from the general-staff headquarters, accusing the politicians *en bloc* of ruining the economy, and national and moral values with it. Robbery, said the brass hats, had become a way of life, and the debate on national security was just a mask for such evils.

Much of which is true. But the generals' outburst proved too much even for the mainstream press. "If the name of this regime is democracy," wrote Hasan Cemal, a prominent columnist in *Milliyet*, a conservative daily, "the civilians should remain civilians and the soldiers should remain soldiers. Let everyone do his own job." Tusiad, the largest businessmen's association, also backed Mr Yilmaz.

The generals were not helped by television broadcasts two days later, on all the main channels, showing one of them in the province of Manisa barking orders at and shoving a Motherland official during a state function, while cowed onlookers hung their heads in silence. Then on August 11th a bunch of the army-run gendarmerie opened fire on a crowd in the religiously conservative province of Konya celebrating as a batch of youths left for military service. One young man was killed. An official report blamed the villagers; few Turks believed it, given that hundreds of bullets were fired during the 25-minute mêlée, most allegedly from army guns.

But then came two surprises. The commanding officers involved in Konya were at once dismissed. The general in Manisa has been put under investigation. Never have the generals acted with such speed. Are they at last willing to defer to the civilians? Probably not: and polls show that the armed forces remain Turkey's most popular institution. But at least the once taboo topic of the generals' role in politics is being debated openly, and without fear that they will lay down the law yet again. That is no small advance.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Eastern Germany's politics and economy

Look what I found in my suitcase

Aug 16th 2001 | FRANKFURT
From The Economist print edition

The chancellor goes wooing east German voters

AUGUST 13th, for Berliners, was the 40th anniversary of the day when Russia's East German stooges started building the wall that for 28 years was to divide the city. Berlin now is reunited. So, politically, is the country. But not economically, as Chancellor Gerhard Schröder was soon to hear after setting out that day on a two-week press-the-flesh trip through the east. He heard the same on such a trip last year, and pledged money in buckets to even things up. Same again then, maybe even more, with an election only a year away? Not if you believed his staff—before he set out.

The chancellor, they avowed, hand on heart, had not packed his *Spendierhosen*, his “generosity trousers”. Plans to keep pouring money into the east until 2020 had already been made. This time he would be explaining how much its people would benefit when the European Union expanded to include their eastern neighbours. His route ran close to those neighbours' borders, with brief hops across, for instance to meet the Polish president and prime minister, and to visit a Skoda car factory, in the Czech republic but owned by Volkswagen.

He faced a hard sell. A poll in the spring found that only 35% of Germans favoured further EU enlargement, westerners and easterners feeling broadly alike. With unemployment rising as the economy slows, fears of cheaper Poles and Czechs taking German jobs are rising too. Still, a statesman must do what a statesman must do.

But Mr Schröder is a politician too, and his Social Democratic Party (SPD) only narrowly leads its conservative rivals in the polls. In eastern Germany, says one polling body, the Christian Democratic Union is doing almost as well, at 27%, as in the 1998 election. In contrast, the SPD, though still ahead with 28.5%, has lost seven points. The main gainer, up four points to 26%, has been the Party of Democratic Socialism—successors to the very communists who left the local economy what it is.

That shift ought to shame any social democrat. But what goes around comes around—especially in east German voters' loyalty, say pollsters. So there are votes to be found, and lo, barely into his tour, the chancellor turned out to have discovered an extra DM1 billion ($460m) to improve east German cities. The real money will start to flow only in 2006, it's true. But how nice for Mr Schröder to find he had not left his *Spendierhosen* behind after all.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Charlemagne

Christopher Patten

Aug 16th 2001
From The Economist print edition

The European Commission's foreign-affairs man has plenty of rivals for his turf

WHEN Henry Kissinger, as America's secretary of state, wanted to telephone his equivalent in Europe, he once gibed, he didn't have a number to call. These days, Colin Powell has only too many: Javier Solana, a Spaniard and the EU's “high representative” for foreign and security policy; the foreign minister of whichever EU country currently holds its presidency (ie, this semester, Belgium's Louis Michel); or maybe Chris Patten, the British commissioner for external affairs.

And daft the results can look. When the EU sent a delegation to North Korea earlier this year, that meant Messrs Solana and Patten, plus Goran Persson, prime minister of Sweden, then in the presidential chair. In general, however, Mr Solana leads the race to become the public face of EU foreign policy. He has taken the lead in Macedonia and in EU efforts to find a role in the supposed Middle East “peace process”. In part that is due to his personal and political skills, and to his experience as secretary-general of NATO, a useful aid in the delicate task of inventing the EU's yet-to-exist military arm. But another reason is the unreadiness of EU governments to hand over fresh powers to the supranational European Commission: Mr Solana is based in the Council of Ministers, the conclave of national representatives.

That leaves Mr Patten a distant second. And it is not only Mr Solana that he has to contend with. The biggest foreign-policy challenge facing the EU is its plan to admit as many as 12 new members in the near future, an issue so crucial that it has a commissioner of its own, Günter Verheugen. As for external trade, that is the brief of Pascal Lamy. Mr Patten has made much of the running in the EU's belated effort to revamp its huge and ramshackle aid programmes; but even there he has a rival in the form of Poul Nielson, the commissioner for development. Some of Mr Patten's staff lament that their boss is too much the British gentleman for the inevitable Brussels turf struggles. “He just won't fight,” laments one. Mr Patten himself takes a certain pride in his rejection of such unseemly scrambling.

Not that he is averse to controversy. He ran the Conservative Party's research department for the four years in the 1970s while Margaret Thatcher was preparing to stand party policy on its head—even while he disliked many of her ideas. For the last 16 months of her prime ministership, he was the unlucky minister who had to try to make sense of the politically lunatic “poll tax” that she had foisted on British local government. Though he was no “dry” Thatcherite, she thought him one of her possible successors. In 1992 the actual one, John Major, posted him off as governor of Hong Kong, to oversee its last five years of British rule and negotiate its return to China. In 1998 a new, Labour prime minister picked him to propose reforms of policing in Northern Ireland, a still surer way of earning tar-and-feathers from the zealots of both sides. In comparison, his appointment to the European Commission in 1999 may have looked a doddle, and his subsequent hectoring of Britain's Tories for their refusal to love the EU no more than an easy (and welcome) duty.

Physically, it is no doddle: whatever else, the reason for Mr Patten's second place in EU foreign affairs is not that he has or finds nothing to do. Last year he spent 140 days on the road. One recent two-week trip took in Luxembourg (meeting of European foreign ministers), Birmingham (a speech), Rome (preparation for the G8 summit), San Francisco (weekend with Republican bigwigs), Los Angeles (speech), Hanoi (ASEAN regional forum) and Bangkok (bilateral meetings). When invitations turn up, EU commissioners have no junior ministers to send in their place.

But where does all this gadding about get him, apart from the departure lounges of international airports? In a recent speech on the Balkans Mr Patten dwelt lovingly—and revealingly—on the idea that the EU's most important work there was “the dull stuff”: training judges in Macedonia, computerising Albania's court records, advising the Bosnians on the drafting of legislation, rebuilding bridges and roads in Serbia. Here Mr Patten has an advantage over Mr Solana, for the commission is in charge of the world's largest aid budget and has diplomatic representatives all over the place.

The sub-text of Mr Patten's stress on the “dull stuff” is clear: let Mr Solana hog the cameras and stage the midnight crisis meetings, it is Mr Patten and his team, with their countless small but worthy initiatives, who may be doing more real good. Not only in the Balkans either. Much of Mr Patten's energy goes into trying to speed up the delivery of EU aid; he has endless bilateral trade issues to deal with (multilateral ones being Mr Lamy's concern); it is he who must try to flesh out the idea of developing a “common economic space” with Russia; and so on.

Bored? Not me

And yet newspapers say Mr Patten is bored by his job, counting the days until he leaves Brussels. Nonsense, he says, and “dull stuff” is just a figure of a speech. Still, as a man with a taste for intellectual speculation, he might well prefer a beat with a little less glad-handing and a bit more grand strategy. Instead, he indulges his taste for theory by writing articles and speeches, larded with references to literature, and to articles and books that he has read lately (all those long flights). In a recent speech he averred that his only real regret about his last day as Britain's last governor of Hong Kong was that he had not insisted on including in the programme a hyper-patriotic hymn once dear to English public schools, “I vow to thee, my country, all earthly things above...”. In a recent article he dwelt at length on the EU's problem in securing democratic legitimacy. Like most people he was better at defining the problem than solving it. As it happens, the European Commission has just issued a document that tries to identify solutions. In late July all the commissioners gathered together to debate its conclusions. All but one, that is: Chris Patten was away “on mission”.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The BBC

Outgrowing Auntie

Aug 16th 2001
From The Economist print edition

Now that British digital pay-television offers some genuinely first-rate programming, the BBC's ratings battle looks odder than ever

Get article background

IT HAS long been whispered inside the corporation that, if the BBC looks after the middle classes, the middle classes will look after the BBC. No wonder that one of the new channels the BBC is asking the government for permission to launch is advertised as “a forum for intellectual debate”. As complaints that BBC1 is sliding downmarket grow, the BBC needs to reassure its upmarket viewers that it has their interests at heart. The delicate balance the BBC has to maintain between populism and elitism is looking increasingly shaky.

Two things have upset this equilibrium: the improvement in pay-television, and the response to it by the terrestrial broadcasters, BBC1 and BBC2, ITV, and Channels 4 and 5. Digital technology has transformed the economics of multi-channel television, enabling independent operators to cater to market niches, and the big pay-TV companies to offer hundreds of channels. Pay-TV channels, now in 44% of households, account for 20% of all television viewing, twice the share five years ago. It has grown largely at the expense of BBC1 and ITV, the most popular networks.

Lots of the stuff on pay-TV is indeed dreadful—third-rate American movies and sitcoms, or shopping. And live sport, or rather premiership football, has certainly driven the success of BSkyB, the satellite broadcaster owned by Rupert Murdoch's News Corporation.

The BBC can no longer claim a monopoly on quality

But, recently, there has been a marked improvement in the range and quality of pay-TV. Plenty of what is now shown, particularly on the new digital channels, is classy television: “The West Wing”, on E4, Channel 4's new digital channel, or “Frasier”, on the Paramount Comedy Channel, owned by Viacom, an American media giant. Nor is all the good stuff imported. Artsworld, for instance, a small channel run by Sir Jeremy Isaacs, a former head of Channel 4, serves up a fine cultural mix of ballet, opera and architecture. The History Channel airs increasingly thoughtful documentaries. The BBC can no longer claim a monopoly on quality.

As viewers have drifted to pay-TV, so the competition among the big terrestrial broadcasters has intensified. Enter Greg Dyke, a commercial TV man, who took over as the BBC's director-general last year. He has been particularly exercised about BBC1, the corporation's flagship channel, which has been steadily losing viewers. Part of Mr Dyke's rescue plan has been to streamline the corporation's management, liberating an extra £89m for the channel. At the same time, he shunted its main evening news on by an hour, to ten o'clock—a move that kicked up a big political fuss at the time—in order to free up prime time for entertainment and drama.

So far, the upshot has been an undeclared ratings war between BBC1 and ITV. Only last week, the BBC began to schedule an extra weekly episode of “EastEnders”, its long-running soap opera, which is currently watched by 11m viewers. Its allocated slot? Friday night at 8pm, precisely when ITV broadcasts “Coronation Street”, its own long-running soap opera, also currently watched by 11m viewers.

Naturally, BBC people insist that this is not evidence of BBC1's relentless march downmarket. Though the best-watched shows are light entertainment—“The Weakest Link”, a game show exported to the United States, or “EastEnders”—the BBC argues that these are “quality” popular shows. It is not mimicking ITV, it says, because it does popular entertainment better; and it must do popular entertainment because, as an organisation financed by a tax on television sets, it has to serve everybody.

This, however, is where the difficulty lies. The BBC is still trying to be all things to all people in a media age when viewers are increasingly fickle. Back in the 1950s and 1960s, when the people now running the corporation were watching “Blue Peter” along with the rest of the nation's tots, the BBC loomed large in the consciousness of young and old alike.

The BBC is still trying to be all things to all people in a media age when viewers are increasingly fickle

Today, however, with multi-channel television, the Internet and its mobile versions, the corporation's importance is shrinking year by year. Viewers zap across scores of channels, and are increasingly drawn to the branded channels—Discovery, Nick Junior, FilmFour—where they select a genre rather than a programme. They will increasingly control their own scheduling, with personal video recorders and an electronic programme guide, which viewers can instruct to record all the week's comedy, say, or gardening shows.

As this happens, loyalty to the BBC is fading. Last year, the BBC conducted some research into how people watch multi-channel television. With some dismay, Mark Thompson, the BBC's head of television, remarked that “we came across quite a few households who are excluding terrestrial TV altogether.”

The BBC understands all this. It knows that children raised on such channels as Nick Junior, the Cartoon Network or Fox Kids may never find their way to “Blue Peter” on the mixed-genre BBC1. It wants its own branded channels; which is why it has asked the government to allow it to launch three digital channels aimed at children of various ages, plus the one for the intellectuals. A decision is expected by the end of the month.

Much of the argument about the purpose of the BBC comes down to subjective judgments about quality. There seems to be a genuine, almost French, fear among BBC bosses that, were the BBC to go commercial, British television would end up with what they perceive as the inferior quality of the American version. “We are told the world is globalising—that's not true: it is Americanising,” declared Mr Dyke last year. “It is essential that TV, radio and online should reflect the cultures of particular countries.” The BBC, goes this line, keeps the quality yardstick high.

It is a fine call. It is true that the drift of the BBC downmarket is not absolute. BBC2 still puts out some well-researched, challenging programmes (“Endgame in Ireland”, for instance, a recent series on the history of Northern Ireland's troubles). But so does Britain's independent sector. Indeed, who is keeping whom on their toes? The BBC admits, for instance, that it no longer gives classical music prominence. Independent culture channels, such as Performance and Artsworld, do. “We came into the arts marketplace because the BBC had abandoned this territory and put on gardening and cookery,” says John Hambley, chief executive of Artsworld: “Now, on one of the new digital channels, they want to do more arts.”

The licence fee, from which the BBC derives a yearly £2.4 billion ($3.5 billion), gives the corporation a sense of obligation to do everything for everybody. But the better the commercial sector gets, the more this looks like empire-building rather than public service.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Asylum policy

Bedlam

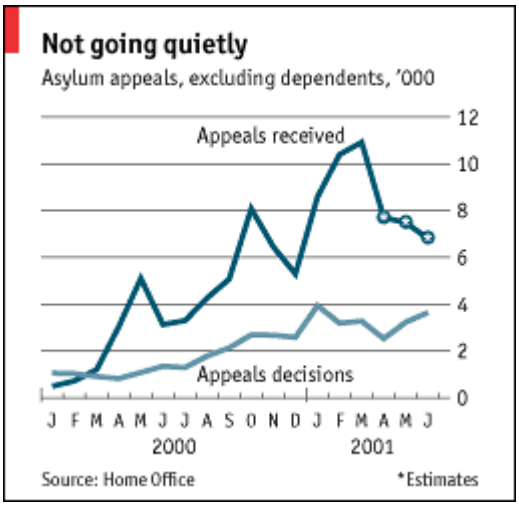
Aug 16th 2001
From The Economist print edition

Time for some honesty on asylum

APPALLED comments from international observers; optimistic official announcements that bear little relation to reality: Britain's asylum system has a lot in common with the tinpot regimes that generate asylum-seekers in the first place. Even with a new ministerial team at the Home Office, there is, as yet, no end in sight to the meanness and statistical bamboozlement.

First, the (official) good news: fewer people are claiming asylum now than were doing so last year. After a big push before the general election, the backlog of asylum applications has been cut from 103,495 last January to 24,315 by the end of June. In June, only 10% of applicants were granted asylum, though a further 17% were granted “exceptional leave to remain”.

The reality is more complicated. Since 1999, the number of people refused asylum for “non-compliance” (for instance, failing to fill out a 19-page form, in English, in a fortnight) has soared. That partly explains why the number of appeals has also soared (see chart). So another backlog has developed, which has grown from under 1,000 in January 2000 to 33,000 by the end of May—a figure not included in the official statistics.



But more people are getting through than the figures imply. Although it is impossible to calculate accurately, the proportion permitted to stay is much higher than the headline figures imply. Some appeals are allowed; lost forms are found. And relatively few are actually removed. Last year only 9,000 were. The government now wants to eject 2,500 people a month by early next year. It is employing extra staff to track down the unwelcome, and building new detention centres for the untrustworthy. Past experience suggests it is unlikely to succeed.

But whilst the asylum system can be more generous than the statistics make it appear, it can also be brutal. Around 500 asylum seekers are currently being detained in British prisons—a practice that has been condemned by the United Nations High Commission for Refugees. Several imprisoned asylum seekers have been on hunger strike in protest. The Medical Foundation for the Care of Victims of Torture, a charity, has compiled an alarming dossier on imprisoned torture victims.

Meanwhile, the rules of the government's dispersal scheme have recently been tightened: if asylum seekers refuse to be relocated to a place of the government's choosing (as some do), they now risk losing benefits at once. And yet the government evidently doubts the efficacy of the dispersal policy: last week David Blunkett, the home secretary, announced a review of the scheme, following the murder of an asylum seeker in Glasgow.

That review will apparently be completed by the autumn, which will make it much speedier than the rethink of the government's voucher system. Asylum seekers are given vouchers (whose value is 70% of ordinary benefits) rather than cash. Critics say the system stigmatises asylum-seekers, and is chaotic and expensive. To obviate a revolt at last year's Labour Party conference, the government promised a review. After an especially long bout of prevarication, it said last week that the voucher review would report in September—just in time for this year's conference. But it seems unlikely that vouchers will be scrapped altogether.

Devising asylum policy will always be tricky, especially while opportunities for legal economic migration remain so limited. But a bit more humanity, and a lot more honesty, isn't too much to ask.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Northern Ireland

Working holiday?

Aug 16th 2001 | BOGOTA AND BELFAST
From The Economist print edition

Two jolts for the Northern Ireland peace process

Get article background

EPA

TWO events last week—one unsurprising, the other more exotic—seemed to confirm the fears of Northern Ireland's doomsayers. The exotic one was the arrest of three men, said to be members of the IRA, by the Colombian army. One of them, James Monahan, has been convicted of possessing explosives. The British security services say that another, Niall Connolly, is Sinn Fein's fixer in central America. Sinn Fein says he has no links with the party.

According to the Colombians, the men had spent several weeks in the jungle with the FARC, Colombia's largest guerrilla group. The army speculated that they had been teaching the FARC bomb-making (traces of various kinds of explosives, as well as of illegal drugs, were reportedly detected on them). The FARC has recently threatened to take its war into Colombia's cities, but has much less experience of urban campaigns than does the IRA.

If true, that is bad news for Colombia, and potentially for Northern Ireland. The fear is obviously that the men could have been gathering skills and resources for a return to conflict. Republicans are known to have liased in the past with other terrorists in the Middle East, and with ETA, the Basque separatist organisation, which may have provided the entrée to FARC. Those contacts, though, were probably more about public relations than about exchanging weapons.

The unsurprising development was the IRA's withdrawal of its proposal on decommissioning, in protest at its frosty reception from unionists, and a brief suspension of Northern Ireland's devolved assembly. That may also turn out to be less damaging that it looks; but it's still a bathetically swift demise for a move that was greeted last week as “historic”. History doesn't last as long as it used to.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Jews and Muslims

Peace comes to Stamford Hill

Aug 16th 2001
From The Economist print edition

Ultra-orthodox Jews and Muslims find common ground in their hostility to the ways of the secular world

PA

Some of our best friends are Muslims

"ISRAEL'S just got to kill them all," said some North London Jews, quoted in the *Evening Standard*, after a Palestinian suicide bombing. But while the media gave vent to religious hatred, a remarkable experiment in communal relations passed almost unnoticed. As Hamas activists strapped on their explosives in Israel, imams and ultra-orthodox rabbis in a poor North London suburb launched the Muslim Jewish Forum, Britain's first group bringing the two communities together.

Stamford Hill is home to Europe's largest community of Hassidic Jews—some 20,000—and a similar number of Muslims. Kosher cash-and-carries jostle with halal malls around the neighbourhood's aptly-named West Bank. The sounds of cantors from a hundred synagogues mingle with calls to prayer from mosques.

In the early days of the Palestinian *intifada*, violence looked set to spill over into Stamford Hill. Five Muslims were arrested for distributing leaflets advocating the killing of Jews. And, in October, an Algerian stabbed a trainee rabbi on a bus.

But, for members of the Muslim Jewish Forum, more unites the communities than divides them. The Forum is talking of developing a partnership to defend their conservative way of life. Common projects include a campaign to keep the local girls' school from taking boys, and protests against naked flesh on advertising hoardings. "When they're house-hunting, Muslims always choose a Jewish road," says Ismail Amaan, who runs the Muslim Community Centre, where the Forum is based. "They don't want their women in veils taunted as ninjas."

The Muslim Housing Association holds its general assemblies in a kosher (but Muslim-owned) hotel to cater for its elected orthodox Jewish representatives. And in the local elections in June, Jews and Muslims went canvassing together. Confused local councillors have taken to inquiring of their new bearded colleagues whether they are Jews or *taliban*.

Even on the delicate issue of the Middle East, there is common ground. Many ultra-orthodox Jews are adamant non-Zionists. "Jews mourn 53 years of Zionist occupation in the Holy Land," reads the placard hanging from the window of a neighbouring synagogue. Muslims in the Forum have received the backing of a leading cleric, who cites a pre-Zionist age, when Muslims and Jews worked together. "Westernised Jews and Muslims think interaction began only a hundred years ago," says Rabbi Hershel Gluck, the Forum's chairman. "But in the medieval world life was different. Traditional communities can set an example." If only communal relations were as easy in the Middle East.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The Shetland Islands

Lonely but rich

Aug 16th 2001 | LERWICK, SHETLAND ISLANDS
From The Economist print edition

Cold, bleak and distant; still, the Shetland Islands at least have some of the best-funded public services in Britain

THATCHERISM, says a local, never reached Shetland. Take, for example, the deal that old people get in this most far-flung bit of Britain. Above the minimum state provision to which every elderly Briton is entitled, there is ample home help and nursing for all who wish to stay at home, and, at modest charges, plenty of sheltered housing and care-home places for those who cannot. And at Christmas, every elderly household gets an inflation-proofed £262 on top of the government's seasonal bonus to pensioners.

Disabled people get an equally good deal: excellent day-care centres, adapted cars and cash help for holidays. So, in fact, do all the 23,000 Shetlanders. Apart from innumerable football pitches and children's playparks, the islands boast no fewer than eight swimming pool and sports hall complexes, probably more sporting square footage per person than anywhere else in Britain. Indeed, it seems that while everywhere else in Britain was afflicted by public-service spending cuts in the last 20 years, Shetland got spending splurges.

How come? After half an hour's drive on excellent, empty roads across boggy and bleak moorlands, shiny jetties, pipes, oil tanks and flaring gas stacks appear. Sullom Voe oil terminal, run by BP, currently handles about 600,000 barrels of oil a day piped in from the Brent, Magnus and other offshore oilfields east of Shetland, about a third of Britain's oil production.

Apart from the £20m a year that the terminal is reckoned to put into the islands' economy, the terminal also pays about £20m in local taxes. On top of the usual business rates, the council collects its own royalties, thanks to a special deal that Shetland Islands Council got from a government worried in the 1970s that Shetland might break away from Britain and take its oil with it.

Until 2000, the royalties were around a third of a penny a barrel. The deal was then renegotiated, and the oil companies strong-armed the council into accepting a cut. But the council also makes money from the islands' ports and tug services, which it runs. Altogether, the docking and towing charges, along with the royalties, now gross about £12m-13m a year. The council will not say exactly how much it nets. The sum is a lot smaller than it was when Sullom Voe's production peaked at 1.4m barrels a day in the 1980s, but is still a sizeable amount.

This wealth has been squirrelled away in three funds. Kept separate from routine council income to prevent the government cutting the subsidies it gives Shetland and to preserve them as charities, the funds are now valued at about £700m. This is a lot smaller than the local oil funds similarly amassed by Alaska, but it is still ten times the council's annual budget. The funds pay for the extra social services and luxuries such as the sports centres.

The islanders reckon they deserve it. “I grew up here in the 1950s and we had sod all,” says Morgan Goodlad, the council's chief executive. Good public services help compensate for the high cost of getting to the mainland. But because councillors have never had to face the squeeze other councils have had, some of the services are pretty inefficient. Many rural schools, for example, are half-empty. Mr Goodlad is trying to pare down the council workforce of 3,500, but admits it is slow going.

Low interest rates and falling stockmarkets mean that the special funds struggle to be as generous as

they used to be. Some slack management has also been exposed. One fund, for example, is partly used as local venture capital, to expand the islands' industrial base. But accountants' scrutiny of £10m spent on setting up a business to recycle oil-well drilling material found that £3.5m was spent without the council's investment company board knowing anything about it.

Although the Shetland Islands' economy looks in good shape just now (a mere 192 people, 1.4% of the workforce, claim unemployment benefit), things are a little fragile. Fishing and farming are three times more important to the economy than oil, but the salmon farmers have problems with disease and over-fishing means the white-fish trawlers face lean times.

Overcoming such problems and ensuring a secure future will entail more stringent management and strategic thinking than the council has displayed in the past. Mr Goodlad is trying. As well as tightening up management, he persuaded the council to spend £4.2m on taking a 26% shareholding in a Faroese shipping company when it was in financial difficulty last year. That, he says, ensures Shetland has a direct shipping link to Denmark, and may also help to persuade the government of the Faroe Islands, 200 miles to the north-west of the Shetland Islands, to pipe the oil expected to be discovered off Faroe to the terminal at Sullom Voe. With BP having decided to ship oil from fields west of Shetland to Sullom Voe, Shetland's nest-egg look likely to grow for many years yet.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Lottery projects

Showbiz meets science

Aug 16th 2001 | ST AUSTELL, CORNWALL
From The Economist print edition

There are some lessons to be learned from the success of the Eden Project

AMONG Britain's lottery-funded millennium projects, there have been a lot of high-profile flops—the disaster at the Dome, the swift demise of Sheffield's rock and pop museum and the non-starter that was to be the new national stadium at Wembley. But the Eden Project in Cornwall, which opened in March, is proving a spectacular success.

Originally, 645,000 visitors a year were expected. But in its first six months alone, despite charging a £9.50 entrance fee for adults, Eden has already had 940,000. Of all the lottery projects, only Tate Modern attracts more visitors—and it is free, and in central London. As the traffic jams lengthen and the few local hotels fill up, the only worry is whether Cornwall can cope with the influx of visitors.

The Eden Project is the brainchild of Tim Smit, an Anglo-Dutch former pop producer. He moved to Cornwall in the late 1980s to set up a recording studio. Next door to the studio was a large, neglected garden called Heligan. Mr Smit restored this as “The Lost Gardens of Heligan”, and opened it in 1992. It quickly became one of Cornwall's top tourist destinations. The Eden Project grew out of Heligan.

So why has the Eden Project done so much better than most other lottery projects? Partly because it came out of a good idea looking for money, not money looking for an idea. Too many of the projects that got financed were born out of the determination of cities to get some of that lottery cash, no matter what it was for.

Crucially, the Eden Project is essentially the vision of one entrepreneur. The failures—most notoriously, the Dome—have been the products of bureaucratic compromise.

Mr Smit wanted, in his own words, to “make science sexy”. Science, which appeals to both children and adults, seems to be good theme-park material. Newcastle's Life Centre, which teaches people about genes, is another successful lottery project.

Mr Smit's aim was to bring a showbiz element to the study of plants. He has created a rainforest underneath two giant “biomes”. The message of the project is that man and plants have co-existed profitably together for centuries and must continue to do so.

The Lost Gardens of Heligan proved that Mr Smit could turn botany into business. His track record not only encouraged the lottery's Millennium Commission to give him £37.5m; it also helped him to attract the private investment that was needed to match the lottery funding.

Eden fitted well into an existing cluster of local garden attractions. Other lottery projects stuck visitor attractions into areas with no links to the theme of the project. The Dome landed on Greenwich, just as the misguided Earth Centre had no obvious connection with Doncaster, a run-down mining town nearby. It merely provoked angry locals into questioning why so much money had been spent on a seemingly irrelevant bit of land reclamation rather than on themselves.

One of the prime criteria the government uses to judge the success, or failure, of a lottery project is by its contribution to local regeneration. Here again, many lottery projects have been notable failures. Cornwall, whose mining and fishing industries have collapsed, is the poorest county in England. Much is expected of the Eden Project's contribution to the Cornish economy.

Eden employs 429 people, of whom 90% are locals. Bookings for accommodation in the local area are up 96% on last year. Planning permission is now being sought for two new local hotels. And the local council

hopes that the success of Eden will finally provoke government into addressing the problem of Cornwall's poor infrastructure.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD BRITAIN
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Private pensions

Save, or else

Aug 16th 2001
From The Economist print edition

Workers are not saving enough for retirement

THE government wants private pensions to play a bigger role in people's retirement income. At present, they provide 40% of pensioners' income. This is supposed to increase over time to 60% as existing occupational schemes mature and more people save voluntarily for retirement through new stakeholder pensions.

The plan is looking shakier and shakier. In the first three months from their launch in April, only a quarter of a million stakeholder pensions were sold, the Association of British Insurers revealed on August 13th. That sounds encouraging, but most of these were transfers from other policies, mainly covering builders. That left net new sales of only 50,000. The government's target group for stakeholders is 5m workers on modest incomes, earning between £10,000 and £20,000.

The disappointing start for stakeholder pensions represents more than teething difficulties. Since the government first dreamt up the idea, it has greatly increased means-tested retirement benefits. This has made stakeholder pensions an unattractive option for large numbers of the target group. “Many people are justifiably likely to bank on adequate state funding for their retirement income,” pointed out a recent report by the Institute for Public Policy Research, a left-of-centre think-tank.

The reluctance to save enough in private pension plans is widespread. Yet a wicked combination of falling investment returns and declining annuity rates means that workers should be saving even more in order to secure a decent pension. The exceptional financial returns of the past 15 years are over. But annuity rates are also falling as retired people live longer.

These twin pressures are already hurting “defined contribution” plans, the category of pensions into which stakeholders fall. DC schemes build up a pot of money for an individual, which eventually purchases the pension benefit.

On August 15th, William M. Mercer, an actuarial consultancy, warned that members of DC schemes were likely to face “significant shortfalls” in their retirement benefits. Its calculations showed that projected pension benefits had halved over the past ten years. A 30-year-old entering a DC scheme in 1991 with a contribution rate of 10% of earnings could expect to get a pension of 55% of final salary at 65. His counterpart joining today could hope to get only 24%. Contribution rates need to increase to 15-20% of pay, says Jonathan Gainsford, a partner at the firm.

Yet DC schemes are the fastest-growing part of the private pensions market. “For new staff, more and more companies are introducing them,” says Mr Gainsford. Firms are seeking to limit their exposure to the alternative “defined benefits” type of pension plan in which pensions are based on final salary and years of service. Although these remain the pre-eminent kind of pension fund by value, companies have become increasingly leery of the risks involved in underwriting them.

A report on August 13th from Bacon & Woodrow, another firm of actuaries, highlighted these risks. It found that 17 schemes offered by Britain's top 100 companies were under-funded—up from seven last year. As a new market-based accounting standard for pension funds comes into force over the next three years, the disclosed position could deteriorate further, warns Brian Wilson, a partner at Bacon & Woodrow. “Some that appear to be well-funded may turn out not to be.”

Such pressures could accelerate the switch to DC plans. However, this is likely to lead to lower retirement saving. Contribution rates into final salary schemes are typically double those into DC plans.

The problems besetting private pension funds are also a headache for the government. Private pension saving has been getting a bad name, as the troubles at Equitable Life follow the scandal of personal pension mis-selling. Now people are being told they will have to save a lot more. This is an inclement climate to make stakeholder pensions a success on a voluntary basis. Sooner rather than later, the government may have to resort to compulsion.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Road safety

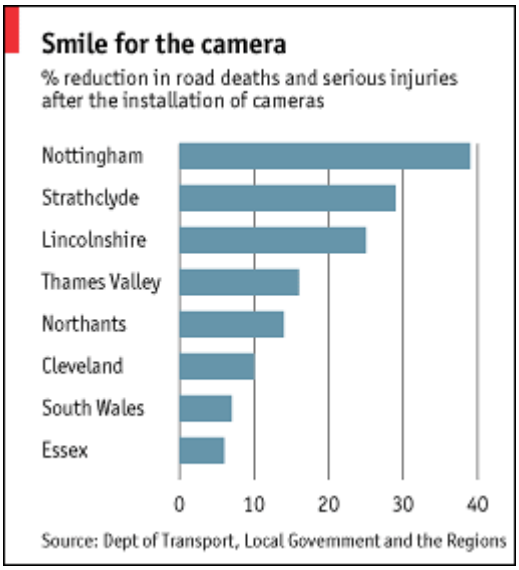
More cameras, less speed

Aug 16th 2001
From The Economist print edition

Most drivers speed. Cameras are a good way of changing behaviour

MR TOAD is alive and well—and very cross. This week's announcement that more local police forces will be allowed to use the revenues from speeding fines to finance the installation of speed cameras brought cries of outrage from all the usual suspects.

The motoring organisations and the right-wing newspapers, which regard enforcing the law on speeding as an assault on personal liberty, ignore the benefits of encouraging the police to use cameras. In the eight areas where the new trials were conducted, the numbers of motorists breaking the speed limit dropped from 55% to 16%. The numbers of people killed or injured in road accidents fell commensurately (see chart).



Every year, the equivalent of a small primary school is wiped out as a result of deaths through road injuries. Road accidents are the leading cause of death for children under the age of 14. As speed increases, so does the chance of a fatality. A child hit by a car at 20mph has a 5% chance of being killed. At 30mph, the risk rises to more than half. At 40mph, 90% of children are killed. Despite Britain having lower death rates from road accidents than most other European countries, it has one of the worst records in Europe for child pedestrian deaths.

Driving too fast is a danger not just for children. More than 1,000 people die each year and 100,000 are seriously injured in road accidents in which, according to the Department for Transport, Local Government and the Regions (DTLR), speed is a major factor. Research by the Transport Research Laboratory, an independent research body, shows that risk increases fivefold for drivers travelling at 25% above the average speed.

That increased risk is roughly the same as drinking and driving. But whereas drinking is now seen as socially unacceptable when driving, many motorists apparently regard driving at more than the 30mph limit in urban areas as a crucial freedom. Speeding for many drivers has also become a habit because they know they are unlikely to be caught. In urban areas studied by the DTLR, 70% of cars regularly exceed the 30mph limit, with 27% doing more than 40mph.

Nearly two-thirds of accidents in which people are killed or injured happen on roads where the speed limit is 30mph or less. Even small reductions in driving speeds could yield significant results. Research conducted for the DTLR suggest that a passenger in the front seat with a seat belt is three times more likely to be seriously injured in a 30mph crash than at 20mph, and five times more likely at 40mph.

Speed cameras, according to a Home Office study, pay for themselves five times over in the first year of operation, thanks to the fines imposed on speeding drivers. But ministers remain nervous about public reaction. The minister for transport, John Spellar, told *The Economist* this week that he wants all speed cameras, including the more than 4,000 currently deployed, to be painted in vivid colours so that motorists can see them clearly. The one sure result of this will be that drivers will rapidly adapt their behaviour, braking just before the camera and accelerating as soon as they are past. It's a shame to see a sensible policy distorted by fear of the headlines.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

American manufacturers and the dollar

A bunch of cry-babies?

Aug 16th 2001 | NEW YORK
From The Economist print edition

The strong dollar has drawn protests from much of corporate America. But it may not be so bad for business

"THE strong dollar is frankly destroying the manufacturing capability and the manufacturing competitiveness" of America, complained John Devine, the chief financial officer of General Motors, on August 8th, before conceding that "we have to be careful on this issue, because we don't want to be seen as cry-babies." Yet that may be the right label for the growing band of American company bosses who are now railing against the mighty greenback—even as, obligingly, it has slipped during the past few weeks to a five-month low against the euro. It is far from clear that a weaker dollar would be good for corporate America.

Apart from GM, the protesters include Gillette, a consumer-goods firm that does 60% of its business abroad. It claims that most of the 5% fall in its sales in the second quarter compared with the same period in 2000 was due to the high dollar. Avon, a cosmetics company, increased sales by 5% in the second quarter; had the dollar not risen, sales growth would have been 10%, says the firm. DuPont, a chemicals group, reckons the rising dollar cut the quarter's profits by $35m. And McDonald's, a burger chain, blamed disappointing second-quarter profits on the weakness of the euro, the yen, the British pound and the Brazilian real, among others.

As manufacturing sales, and jobs, have tumbled during the past year, the National Association of Manufacturers has lobbied noisily for the Bush administration to let the dollar fall to "reflect economic reality". But how to do this, assuming it were desirable, is not at all obvious, and it is not clear that the administration has actually been doing much to support the dollar, besides talk. In his characteristically blunt way, Paul O'Neill, the Treasury Secretary, has made it clear that he will continue to talk the dollar up (for what that is worth).

Drawing on his experience as a company boss—first at International Paper, and then Alcoa, an aluminium firm—Mr O'Neill argues that "the really successful people in the world produce outstanding, almost unbelievable, results and don't spend a lot of time talking about currency rates." Alcoa certainly fits that description, increasing profits in the second quarter by cutting costs. Not so Mr O'Neill's earlier employer. "The strong dollar has continuously weakened our export business in container board, while increasing imports [from competitors] in coated paper," grumbles International Paper's chief executive, John Dillon. In his other role, as chairman of the Business Roundtable, a bosses' group, Mr Dillon has lobbied Mr O'Neill for a weaker dollar.

One thing that a weaker dollar would probably produce is a rise in American exports. Richard Salsman of InterMarket Forecasting, a research firm, looked at the ten years since 1973 in which the dollar depreciated the most. He found that growth in exports accelerated from an average of 2.3% in the year concerned to 20.1% the following year and 21.8% in the year after that. But "history shows no material, bottom-line benefit in merely shipping more goods abroad, by means of currency debasement," concludes Mr Salsman.

Show of strength

On the contrary, there is plenty of evidence that corporate America is better off with a stronger dollar—or at least no worse off. Since 1973, American shares have tended to outperform foreign shares during periods of dollar strength. This is true even of firms in industries that do a lot of exporting. Kenneth Landon of Deutsche Bank calculates that, since 1990, shares in industries such as diversified manufacturing, chemicals and cars rose more during months when the dollar rose in trade-weighted terms than during months when it fell. The outperformance of America's car companies was even greater during months when the dollar strengthened against the yen in particular.

This suggests that, if GM does get the weaker dollar it desires, its shareholders may be among those who lose out—though, to be fair, there is no guarantee that past patterns in share performance will be repeated. Some economists note that in recent years a strengthening dollar and rising share prices may both have been caused by expectations of stronger economic growth in America, and that this relationship may not hold in future.

Why might dollar strength be good for corporate America? By keeping down import prices, a strong or rising dollar may help keep inflation down. This was certainly so during the past three years.

One reason for the dollar's strength has been massive demand from foreign investors for dollar assets, including shares and corporate bonds. This has resulted in a lower cost of capital for American firms. Were a weaker dollar the result of a decline in such demand, capital costs could rise.

A strong currency can also spur firms to greater efficiency, giving them a competitive edge that outweighs any disadvantage from the exchange rate. During the late 1980s and early 1990s, despite the strength of the yen and the D-mark, Japanese and German firms made impressive gains against their American competitors, not least in the car industry.

While it is true that a currency can become so overvalued that it kills off even well-run firms, the dollar today is nowhere near as overvalued as it was in the mid-1980s. And, although most economists think it is pricey against the euro, it may be undervalued against the yen.

America's squealing firms may be suffering less from the strong dollar than from other factors, such as slumping demand and lacklustre management. Consider GM's complaints. According to Autodata, a research firm, car sales by the big Detroit-based producers were down by 9.3% in the first seven months of this year, compared with the same period in 2000. Sales of foreign marques were up by 4.3%. Yet a large part of this increase was due to sales of cars made by foreign firms in their American plants (up 4.2%), not in foreign factories. So there is more to the story than currency movements.

GM says it does not want to move more of its production abroad—a reluctance shared by many American firms, despite their reputation as aggressive globalisers. Yet given the limitations of using financial instruments to reduce currency risk, the “natural hedging” of producing and selling in the same currency—say, the euro—surely offers efficiencies that good management should embrace.

Certainly, firms are more likely to benefit by adjusting to the realities of the currency markets than by relying on changing government policy. Even if the Bush administration did manage to engineer a weaker dollar, this might only push the economies of Europe and Japan deeper into the mire. Exports to America have been one of the few sources of strength for these economies. Worse, when currencies move significantly, they tend to overshoot—which could mean an undervalued dollar and global economic depression. A weaker-dollar policy in 1985 pushed the currency down by 50% in two years. Some economists blame this drop for economic turbulence, including the 1987 stockmarket crash. Corporate America should be careful what it wishes for. It might get it.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Business schools

Tyson's London corner

Aug 16th 2001
From The Economist print edition

Why the London Business School's new dean is an interesting choice

IN CHOOSING Laura d'Andrea Tyson as its new dean, the London Business School (LBS) has shown the way such schools not only differ from other higher-education institutions, but may also set trends. The LBS is one of only three business schools outside the United States (the others are INSEAD in France and IMD in Switzerland) that see themselves as serious rivals to the bigger, older, richer American schools. It competes in a world market: around 85% of its full-time MBA students come from outside Britain. It also needs to woo faculty talent and endowments from around the world. It believes that Ms Tyson, a former adviser to President Clinton and dean of the Haas School of Business at the University of California, Berkeley, has the glamour and clout that the job requires.

She will need it. Robert Joss, dean of the Graduate School of Business at Stanford University, has been a top corporate executive, but says that running a big business school is one of the most demanding jobs imaginable, requiring academic leadership, managerial skills and money-raising flair. Ms Tyson agrees: a business-school dean, she reckons, needs to be more nimble and responsive than other academic bigwigs. Students come from the business world and expect business-quality education.

Can the LBS challenge America's grip on the business-school market? “There is no other industry I can think of where American institutions are so dominant,” says Mr Joss. However, there is a gap in the market: although big American business schools are keen to tout their “global” credentials, Ms Tyson argues that most find it hard to deliver. Many have a student body that is only one-third international; faculty and courses remain stubbornly American. The LBS, by contrast, based in a cosmopolitan capital, is well placed by “history, location and culture” to offer real diversity.

Maybe Ms Tyson can influence other parts of Britain's cash-starved and demoralised higher-education system. The LBS faculty see themselves standing apart from the mainstream: they confer University of London degrees but get a mere 6% of their revenue from the British government. If only British universities could think of themselves as competing globally, they might escape the corrosion of excessive dependence on the state.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Motorola and Nokia in Turkey

Facing down the Uzan clan

Aug 16th 2001 | ANKARA
From The Economist print edition

The perils of vendor financing

FOREIGNERS who want to do business in Turkey will be thinking twice as a row escalates between two leading telecoms-equipment makers, Motorola and Nokia, and the country's second-largest mobile operator, Telsim, which has failed to meet a staggering $2.7 billion in debt repayments due to both companies.

Motorola's woes with Telsim surfaced in May when the Turkish company failed to meet a $728m payment towards a $2 billion package of telecoms infrastructure and handset vendor-financing. It later emerged that the Uzan family, which controls Telsim, had surreptitiously arranged a capital increase in the company during a shareholders' meeting in April. In effect, this diluted Motorola's stake—held in collateral for its loan—from 66% to 22%. Telsim has also defaulted on a $240m payment due in a $719m vendor-financing arrangement with Nokia, also backed by a pledge over its shares.

The trouble, according to Turkish officials familiar with the affair, is that the Uzan family structures its contracts so ingeniously that there is little its partners can do to win in Turkish courts. The family has a long record of litigation, including with Turkey's Capital Markets Board, the stockmarket regulator, which has accused it of illegally diverting funds from its publicly quoted assets to other businesses.

The Uzans have cited Turkey's ongoing financial crisis as the reason for failing to meet their commitments. Neither Motorola nor Nokia appears to believe them; the two firms have jointly hired Kroll Associates, an American firm of private investigators, to look into the family's fortune. This is considerable. The Uzans command an empire estimated to be worth $1.6 billion, spanning construction, banking, power generation and the media.

Cem and Hakan Uzan, the siblings who run Rumeli Holding, the conglomerate founded by their father, Kemal, are frequently featured on the pages of gossip magazines and have been spotted flitting across Istanbul in an American-made helicopter said to be worth $8m. Their assets are also believed to include two luxurious yachts, *Frequency* and *Airwaves*, valued at $35m apiece. “It is not that the Uzan family doesn't have the money,” notes a Western official close to the affair. “It's just that this [repaying the debt] is not what they want to spend it on.”

Motorola is now said to be pushing to take a large stake in Telsim in lieu of its loan. The American company admits that its appetite for the Turkish market remains big. That is understandable: over the past two years, the number of cellphone subscribers has grown from 2m to 11m.

The Bush administration, whose support was pivotal in securing some $15.7 billion in World Bank and IMF loans earlier this year to rescue Turkey's economy, has alerted the Turkish government to the damage Telsim's behaviour could inflict on the country's already shaky image among international investors. Finland's foreign trade minister, Kimmo Sassi, has said his government is preparing to intervene on Nokia's behalf. Privately, however, officials acknowledge that, short of revoking Telsim's operating licence, there is little the Turkish government can do to lean on the Uzans. And if Telsim were to lose its licence, it would be even less likely to repay its loans.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Executive pay-offs

Money for nothing?

Aug 16th 2001 | NEW YORK
From The Economist print edition

This is a great time to make it to the top—even if you flop

WITH the environment for business worsening, clever executives are carefully scrutinising the information that really matters: how much they will receive if they are simply not up to running their beleaguered firms.

The recent numbers are encouraging. On August 13th, Lucent and Honeywell each filed quarterly statements with America's Securities and Exchange Commission that included details of lavish settlements. In Lucent's case, it took a 15-page attachment to cover the terms for its former chief executive, Richard McGinn, and former chief financial officer, Deborah Hopkins. In contrast, less than a page of Lucent's quarterly report covered its decision to lay off 10,500 employees.

Mr McGinn, who presided over troubled Lucent for barely three years, received the most money: almost $13m. Ms Hopkins did slightly better based on time in the office. She was the CFO for less than a year and received almost $5m. This week, it also emerged that Michael Bonsignore, who ran Honeywell International for two years until its planned merger with GE fell apart last month, is to receive a $9m pay-off and a long list of perks.

The largest component of Mr McGinn's package is the transformation of a “restricted” incentive grant of shares into an outright grant (so much for incentive). Mr McGinn borrowed money on the “assumption of continued active employment”, which, it is safe to assume, is true for most people who take out a loan. Unlike most people, though, when employment was discontinued, his former employer bailed him out, granting him a new $4.3m loan, presumably on better terms. He retains an annual pension of $870,000, as well as health and life-insurance benefits equal to those that other retired Lucent senior executives receive.

Like Mr McGinn, Ms Hopkins was given her restricted stock, and she also received $30,000 for “financial counselling” (not something you would expect a CFO to need). Both she and Mr McGinn will retain share options. These are currently well below their strike price, but in a sharp recovery they would become highly lucrative. This, presumably, ensures that both root for their successors.

Mr Bonsignore's termination agreements says he will be treated like a chief executive, with “executive transportation” and “financial and tax planning services”, among other things, for the rest of his life. All this, without the bother that comes with actually running a company. He will also receive “continuing relocation benefits” that were granted when he moved Honeywell from Minnesota to New Jersey in 1999.

Headhunters say guarantees in the case of dismissal are a growing component in any effort to lure top employees, with the newest demand being cash severance if the company doing the hiring cannot get fresh funding. (Webvan, a failed Internet retailer, has promised to honour a severance package of $375,000 a year, for life, granted to its former boss, George Shaheen.) As executive demands grow, so agreements with employers become hideously complicated. Mr McGinn's exit deal took more than a year to work out. Inevitably, this generates high legal bills. A prominent term in all three agreements made public this week is that the lawyers be paid by the companies involved. No doubt the former executives believe them to be worth every cent.

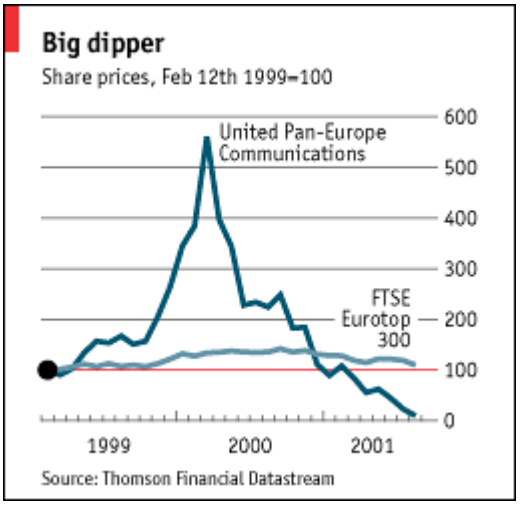
Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

European telecoms

Running for the exit

Aug 16th 2001 | FRANKFURT AND PARIS
From The Economist print edition

Once fashionable, telecoms and cable groups are increasingly vulnerable



IN FRANTIC bidding over the past two years, Europe's telecoms groups spent *euro*110 billion ($99.3 billion) on 3G mobile telephony licences. It is a measure of how fast and how far the industry's star has waned that Sonera, Finland's biggest operator, was applauded on August 10th for its decision to hand back, for no financial return, its hard-won licence in Norway. Indeed, rather than the promised juicy future profits, Sonera recorded a modest *euro*18m write-off. Now that it will not have to pay to build a 3G network in Norway, it expects to concentrate on its other investments in Germany, Italy and Spain.

Perhaps it should not be surprising that shares in Sonera have tumbled from more than *euro*95 last year to around *euro*6.25. But the same story can be found all over Europe's telecoms sector. Since the market in telecoms shares peaked in March last year, it has fallen persistently. A recent analysis by Merrill Lynch noted that the sector's quarterly performance since the peak has been as follows: -17%, -22%, -14%, -20%, -11%. Judging by recent events, the latest quarterly figures will be no better. Many share prices are near their all-time lows. Debt-laden France Telecom, for example, has seen its shares slump by almost half in recent months. Even its Orange mobile arm now trades at one-fifth below the price at which it was floated in February.

In this dismal context it is no wonder that a row has broken out in Italy, where control of Telecom Italia recently passed to Pirelli, a tyre and cables group. To sweeten its takeover, Pirelli proposed that Roberto Colaninno, outgoing boss of Telecom Italia and already a rich man thanks to the fat premium Pirelli paid him for his shares, should get a *euro*31m handout in lieu of options and other pay. The board of cash-strapped Telecom Italia rejected the proposal, arguing that the pay-off was unwarranted, given how poorly shares in the group have performed. A different drama has been unfolding at Deutsche Telekom, Germany's former telephone monopoly. Ron Sommer, Telekom's boss—once a hero of Germany's nascent equity culture, but now a perennial target of shareholder groups and the press—has fallen out publicly with Deutsche Bank, Germany's biggest bank, which last week sold a huge batch of Telekom shares, sending the share price plummeting (see article).

It is not just network operators that are suffering. Telecoms-equipment suppliers are under pressure too: this week, Marconi faced relegation from London's FTSE 100 index after its shares fell 12% in a single day. Other telecoms-related sectors, notably cable television, are in deep trouble. In the go-go days, cable operators touted a “convergence” model in which they would bundle TV and telephony and out-compete incumbent telecoms giants. Now they are simply trying to survive.

In Britain, NTL, one of two remaining cable providers, is under fierce financing pressure and might have to merge with its domestic rival, Telewest. And on August 14th, Mark Schneider, boss of United Pan-Europe Communications (UPC), an American-backed cable group based in the Netherlands, resigned after reporting a huge quarterly loss. His fate was probably sealed last month when shares in UPC fell by half in two days amid rumours that it was going bankrupt. Shares worth *euro*85 last year are now stuck at a mere *euro*1.20. Meanwhile, UPC's bonds trade at one-third of their face value. The message from investors is clear: if it has anything to do with copper wires or cables, stay away.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Pharmaceuticals

Bayer beware

Aug 16th 2001
From The Economist print edition

The withdrawal of a drug is swiftly followed by a strategic about-turn

EARLIER this month, Bayer, a German pharmaceuticals and chemicals company, announced the sudden withdrawal of its cholesterol-lowering drug, Baycol, from the market because of side-effects that have been linked to 52 deaths so far. The company's own retreat from drug-making will probably be a more leisurely affair. On August 13th, Manfred Schneider, Bayer's chairman, announced that the group was willing to reassess the future of its pharmaceuticals business, and might contemplate taking a back seat in a joint venture or even an outright sale.

This decision comes after years of resisting angry calls from shareholders to split apart the company's "four pillars"—pharmaceuticals, polymers, chemicals and agribusiness. Certainly, the experience of ICI, Hoechst and others has shown that drug-making divisions tend to do better when freed from the messy, cyclical business of chemicals.

Even before the Baycol debacle, Bayer's drugs division was struggling. Manufacturing problems with another money-spinner, Kogenate, have hit the bottom line; first-half profits for the health-care division (which includes drugs) were down 39% on the previous year. And worse is ahead. The loss of Baycol is expected to wipe up to *euro*650m ($590m) off Bayer's full-year profits. Moreover, the first lawsuits seeking compensation for Baycol-induced deaths are just starting to roll in. No wonder Bayer's share price has fallen more than 20% since the withdrawal was announced.

Some blame bad luck for Bayer's problems, and believe that the company's ambitions in blockbuster drugs might have paid off if Baycol had not been hit with problems that clinical trials could not have picked up. The firm still has a few promising drugs up its sleeve, such as a new anti-impotence medication. It also has a sizeable salesforce and some interesting products in over-the-counter medicines and diagnostics. These might attract a bid or alliance offer from a rival, perhaps Novartis.

Others are more critical of Bayer's management, blaming the company for dithering over acquisitions when drugs companies were still cheap. Instead, Bayer invested heavily in alliances with biotech ventures such as CuraGen. Such deals may produce some benefits. But by the time they do, Bayer's drugs division will probably have changed hands.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Renault's alliance with Nissan

Halfway down a long road

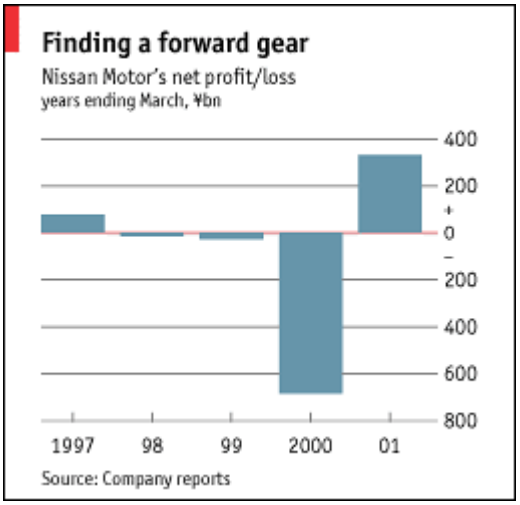
Aug 16th 2001 | PARIS
From The Economist print edition

Carlos Ghosn's efforts to meld Nissan with Renault have become the stuff of management legend. But the alliance faces some daunting challenges

AP

WHEN Carlos Ghosn moved from Renault to tackle the problems at Nissan, after the French car company took a 36.8% stake in the ailing Japanese firm in 1999, it looked like mission impossible. Yet two years later, much has been achieved. A thumping loss of ¥684 billion ($6.1 billion) in the year ended March 2000 has been turned into a profit of ¥331 billion for the past fiscal year. Nissan has, as Mr Ghosn says, moved from the emergency ward to the recovery room. This success, in the face of universal scepticism, is already the subject of six books, with four more being written. Harvard Business School and INSEAD have both prepared case studies on the turnaround, and Harvard is working on a second.

The Nissan story is interesting not just as a dramatic corporate recovery, but also as a study of how to work in an alliance, and of how a foreigner can shake up a failing Japanese company, despite a perceived cultural gulf. Mr Ghosn plays down the cultural aspect: “I don't know what is a Japanese company,” he says. As with anywhere else, “you just get bad ones and great ones.” He defines his objective at Nissan as no less than turning it into the best-performing car company in the world. He is off to a good start. Last year, he more than tripled the operating profit margin to 4.75%, bringing him over halfway to meeting his target of 8% by 2005. Small wonder that the car industry is buzzing with rumours that the man dubbed Le Cost Killer in his Renault days will be headhunted to solve the problems of GM, Ford or DaimlerChrysler.



The real challenge now, says Mr Ghosn, is to change attitudes at Nissan, from design through to sales. About the first thing he noticed at the company, which had been making losses year after year and losing domestic-market share for a generation, was that nobody seemed to take responsibility when things went wrong. Managers blamed the strength of the yen or the poor state of Japan's economy for the company's plight, ignoring the fact that competitors such as Honda and Toyota were prospering. The first thing Mr Ghosn did was to form “cross-functional” teams to work on ways to break down barriers between departments. “It's at the interstices between functions that you get real creativity,” he notes.

When he first spelled out his recovery plan to senior managers, he met pockets of resistance, but decided to ignore them. Then he began to see changes as more executives accepted that the plan was worth a try. Now he waxes enthusiastic about Japanese managers. “When you get a clear strategy and communicate your priorities,” he says, “it's a pleasure working in Japan. The Japanese are so organised and know how to make the best of things. They respect leadership.”

The next thing Mr Ghosn has to do is to improve Nissan's brand image with cars that are not just well manufactured, but exciting. Next year, no fewer than 12 new models will be unveiled, as the Japanese company begins to design a whole new fleet based on ten basic platforms (the floorpans and basic body parts), which it will share with Renault. By 2010, Renaults and Nissans will be made of essentially the same building blocks, even though they will look different. This platform-sharing is expected to bring

huge savings.

The same will be true of the companies themselves as they create a more integrated structure. Renault has the right to increase its stake in Nissan to 44% (at the 1999 price of ¥400 a share, not today's ¥814). But it will not want to exercise its option until the Japanese company's huge debt has shrunk, as this would go on Renault's balance sheet. Although Mr Ghosn brought the company's debt down by about 30% to ¥953 billion last year, there are still debts of ¥2.5 trillion in Nissan's sales-finance companies.

Reversal of fortune

Nissan also has the right to buy Renault shares, something that looks less unlikely now that its market capitalisation is about twice the French company's. Its profits last year were three times Renault's *euro*1.1 billion ($1 billion). Ironically, having helped Nissan back on its feet, the French company's fortunes are declining, partly because its model range is ageing all at once.

Mr Ghosn sees the development of the alliance as “managing the contradiction between synergy and identity”. Too much synergy, throwing the companies together willy-nilly, and you lose identity. “Identity matters,” he says, “because it is the basis of motivation, and motivation is the fuel that companies run on.” Renault people identify with their company and brand, as do Nissan people with theirs. That is an important thing to hold on to, says Mr Ghosn.

So Renault has no immediate plans to take over Nissan; nor is the resurgent Japanese company going to swallow Renault, which is still 44% owned by the French government. Instead the two will become genuine partners, perhaps like the Royal Dutch/Shell oil and gas group. Mr Ghosn sees Renault-Nissan as a global group, with Renault the European core and Nissan the pole for Asia and America.

There is no other alliance quite as deep as this in the car industry. Certainly, the industry needs new ways to do things. DaimlerChrysler is a takeover with deep problems, while the General Motors/Fiat tie-up, involving some platform-sharing, is far from solving either company's problems. Alliances, however deep, are normally seen as sub-optimal, because they fail to rationalise assets. Mr Ghosn is determined to show that creative thinking can contradict that view.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Face value

The physics of shopping

Aug 16th 2001
From The Economist print edition

An eye for a bargain and an ear for a joke have made a class act out of David Gold's supermarket chain

"HAVE a cookie." David Gold splits open the packet of four chocolate sandwich biscuits and hands it round. "What do you think? Four of these packets for 99 cents? That's a good deal, isn't it?" It certainly sounds it. Sixteen Oreos normally cost $1.50. Not a bad deal for Mr Gold either, confirms the buyer who brought the biscuits to his office. She is being offered a lorry-load for a few cents a packet. Mr Gold ruminates briefly and nods. "Yes. Take it."

Calculations like this are the heartbeat of 99¢ Only Stores, a discount supermarket chain founded in 1982 by Mr Gold, who is chairman and chief executive. Close-outs (stock-lots in British parlance)—goods sold off by manufacturers or other stores that have misjudged the market and overstocked—are snapped up by a team of cheery buyers and then pumped out into stores where everything costs exactly 99 cents. It may sound a bit gimmicky, but such ultra-discounting can clearly be a profitable proposition: 99¢ Only Stores' market capitalisation has grown steadily from $225m in May 1996, when the company went public, to $1.7 billion today.

Across southern California and now in Las Vegas, Nevada, and Phoenix, Arizona, the stores are magnets for bargain-hunters. Nor is such bargain-hunting the exclusive preserve of the hard-up. Although snooty local merchants have rebuffed the firm's efforts to find a location on Rodeo Drive, a street in Beverly Hills lined with designer clothes shops, local shoppers have no qualms. A glance at the bejewelled matrons browsing in the company's highest volume store, on Wilshire Boulevard, a short drive away from Beverly Hills, proves that in a tightening economy, the promise of a good deal knows no boundaries.

Keeping the bargains coming depends on the work of the buyers, in offices stacked high with samples and souvenirs of particularly spectacular deals. They regularly drop in on Mr Gold, who quizzes them closely, his wild greying locks and well-stuffed shirt pocket giving him the air of a rumpled physics professor expounding an exotic retail calculus. Skin cream in bottles labelled in Arabic? Buy them! Little flasks of fancy lemonade? Much too expensive! Fluffy toy animals made for a charity that has since shut down? Nice, but push them a little harder on the price.

The germ of the idea for 99¢ Only Stores came to Mr Gold as a young man stocking the shelves in his father's liquor store in Los Angeles. Ninety-nines on the end of prices seemed to help bottles sell faster than round numbers. He got a chance to test his vision of a store chock full of such apparent bargains in 1982, when he spotted a vacant restaurant to let on the road to Los Angeles airport. The store launched on a Friday 13th with the fanfare that has since become a ritual at the opening of every new location. Queues formed outside to snap up the televisions on sale—for 99 cents, naturally—to the first nine customers.

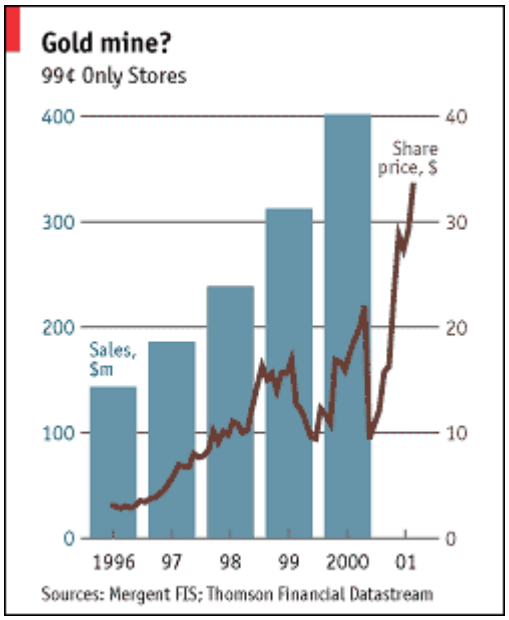
The chain has since grown to 108 stores (the opening of the 99th outlet in January this year merited a special outburst of merriment, with a 9lb, 9oz baby born on the day awarded $99.99 worth of gift certificates). Another dozen or so stores are due to open this year, and there are plans to push into northern California and to open stores in Texas in 2003. The average store costs $700,000 to launch. This investment is usually recouped in under a year.

Solid results have won tolerance of Mr Gold's pranks at the New York Stock Exchange, where he recently

showered the trading floor with dollar bills rubber-stamped with the words “99 Thanks”. Net profit for the firm last year was $37.8m on sales of $402.1m, up from $22m on sales of $312.3m in 1999.

One bargain at a time

The only serious dip in the company's share price came last October (see chart), when profits were dragged down by the sale of a discount-store chain that 99¢ Only Stores had bought in the mid-west but could not convert to its way of doing business. Acquisition is not the way to grow, the company concluded, but it sees no limits to steady expansion outward from California.



Indeed, this is a business in which scale brings benefits, as larger orders draw keener prices. Some big manufacturers are now prepared to make products in special sizes just for 99¢ Only Stores. Mr Gold has also built up trust over time by paying bills promptly (he signs his way through a stack of cheques as he talks to *The Economist*), a rarity in an industry where making your creditors wait is practically a profit line in its own right. The firm has become ever more choosy, buying only one in every 15 of the items it is offered, compared with around one in five when it started.

The aim is to stock 99¢ Only Stores not simply with haphazard lots of unheard-of brands, as its dowdier imitators do, but to guarantee a full range of basic goods and many familiar brands. That encourages shoppers whose eye is initially caught by the gimmicks and one-off bargains to return for their weekly supplies, says Mr Gold.

The firm's progress is still measured one deal at a time, though. The old dictum that “retail is detail” is borne out hourly in its bustling headquarters. Mr Gold, with his encyclopaedic knowledge of past deals, and his rapid capacity to calculate the value of fresh ones, is a master of this discipline. His enthusiasm for the business is obvious—and infectious. The final test of this 68-year-old professor of buying will come when he retires. Perhaps the only miscalculation Mr Gold could make would be to underestimate his own importance in the fast-expanding 99 cent universe.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com SPECIAL
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Special report

Hands in their pockets

Aug 16th 2001
From The Economist print edition

State funding for the performing arts is tightening up all over Europe. Theatres, concert halls and opera houses are having to learn how to milk the private sector

AT THE height of the appeal to redevelop the Royal Opera House in 1998, Sir Colin Southgate, the chairman, got a call from one of London's smartest networkers. His wife had found herself sitting next to an unusual man at a dinner the previous evening given by Gilbert Kaplan, a magazine publisher and famed conductor of Mahler's "Resurrection" Symphony. He seemed timid at first, but she quickly learned that behind the soft voice lay a powerful will. Had Sir Colin ever heard of an American named Alberto Vilar? Did he know that Mr Vilar was the world's biggest donor to the arts, and to opera in particular? Furthermore, Mr Vilar was living right on his doorstep, in London.

No, Sir Colin did not know that. But things changed when Michael Kaiser, then executive director of Covent Garden, heard about the conversation. Mr Kaiser invited Mr Vilar to tour the building works, and less than two months later Mr Vilar gave the Royal Opera House £10m ($16m), the biggest single donation it has ever received. He has since given another £10m and also bought tickets for two front-row stalls seats, A8 and A9, for every night of the season—a habit he has kept to this day, and one which he also maintains at the Metropolitan Opera in New York. In return, the board took the unusual step of naming the vaulting glass atrium, which links the front entrance with the old Covent Garden flower market behind, after its premium benefactor.

The genesis of the Vilar Floral Hall is more than merely a tale of money buying posterity. It is a symbol of the change that is taking place in the funding of the performing arts all over Europe. Herbert von Karajan, a conductor and maestro of the Salzburg Festival, was once asked by an American journalist what he did whenever one of his Salzburg productions ran over budget. "I call Vienna," the maestro replied, "and the ministry sends more money." Not any more. State funding of the arts is shrinking in real terms in many parts of the continent, even in countries, such as Austria, Germany, Italy and Russia, that have long been wedded to it. The state subsidy of the Berlin Philharmonic Orchestra has been reduced from 57% of its budget in 1997 to 48.4% last year, while that of the Teatro alla Scala in Milan has been cut from well over 50% to 44.3%. And that may be just the beginning.

The genesis of the Vilar Floral Hall is a symbol of the change that is taking place in the funding of the performing arts all over Europe

Ticket sales, copyright fees and renting out halls make up part of the rest, as well as sponsorship and private philanthropy. But in some countries, particularly Britain, corporate sponsorship is becoming harder to get as turnover slows, shareholders grow more demanding and company executives are less certain that funding the arts is really so useful. As a result, theatres, opera houses, orchestras and other

arts organisations are having to learn how to raise money more energetically themselves. En masse, it would seem, they are taking crash courses in how to ask donors for gifts, how to thank generous patrons to ensure that they keep on paying and how to lobby governments for tax changes that will help make giving more appealing.

Even the Salzburg Festival, where costs are covered by ticket sales and a generous public subsidy—topped up, when von Karajan was in charge, by that occasional call to Vienna—*even* Salzburg is adapting to the idea of soliciting sponsorship and private donations. At the beginning of August, the festival announced it has appointed Isabelle Harnoncourt, an Austro-American fund-raiser who cut her teeth at Carnegie Hall, to set up its first ever development office, which will be divided between New York and Salzburg. “We have always considered only our cultural future,”says the festival's president, Helga Rabl-Stadler. “For us in Europe, [fund-raising] is something completely new. But at least we are finally waking up.”

The transatlantic model

In America, the arts are—and always have been—almost wholly privately funded. Supporters of the National Endowment for the Arts (NEA) occasionally suggest that the American government's support for the arts is embarrassingly meagre—pointing out, for example, that the shipping costs for Operation Desert Storm alone could have funded the NEA for more than a century. But the absence of state intervention, combined with a helpful tax regime, are what have made the arts in America so self-reliant.

This is also the reason why the culture of philanthropy—with its rich trustees, its giving circles, its endowment funds and its professional fund-raising advisers—is so strong there. Generous donors who become trustees of arts or other non-profit organisations are expected to work in America by giving more money themselves, roping in their friends and buying whole tables at benefit evenings, all in a spirit of what is often described in philanthropic circles as “Give, get, or get off.”

Europeans, who are accustomed to a different way of supporting the arts, may find this bewildering and even crass. But they are getting used to it. Accurate figures on the scale and growth of non-state funding for the arts in Europe are still hard to get, but anecdotal evidence suggests that fund-raising is expanding. Moreover, it is developing according to a recognisable pattern: state subsidies are cut back and are replaced by corporate sponsorship, which in turn gives way, to a greater or lesser degree, to private funding. In some places, private giving is growing much faster than corporate sponsorship.

Europeans, who are accustomed to a different way of supporting the arts, may find this bewildering and even crass. But they are getting used to it

A number of things have come together to make this possible: a growing cultural self-confidence among successful people working in commerce and finance and a realisation that their money can make a real difference to the arts; the existence in Europe of an important group of American donors, of which Mr Vilar is only the most visible, who are teaching Europeans about aggressive American-style philanthropy; the hiring within a number of organisations—from the Salzburg Festival down to the tiny but highly successful London-based Orchestra of the Age of Enlightenment—of American development directors who have long experience of professional fund-raising; and the establishment of a number of intermediary bodies that advise arts organisations and donors about fund-raising.

There is now an Institute for Philanthropy in Britain, an academic body that collects research data and is linked to University College London; a European Assocation for Planned Giving, which advises tax lawyers and other professionals; and BDG& Associates, a newly established Brussels law firm whose entire practice is based on the philanthropic sector. America has long had such bodies, but in Europe they are completely new.

Arts-friendly taxes

In addition, there has been a series of small but significant changes in the tax and legal systems of several European countries in the last year or two. Last March, Britain's chancellor of the exchequer, Gordon Brown, announced measures to simplify the way in which donors can use the tax system to maximise their gifts. British charities have long called for this, insisting that the friendly tax regime is what most helps fund-raising in America. (Republican proposals to do away with the estate tax may be a step backwards.) Mr Brown also did away with the minimum threshold for deductible gifts and extended

the scope of such gifts to include shares. Gifts in kind may be included later.

This has already helped a number of arts organisations. The Aldeburgh Festivsal, which every summer puts on a series of highly regarded operatic and concert performances on the East Anglian coast and receives only a tiny public subsidy, has made particularly inventive use of this opportunity. Three years ago, the festival's chairman, Lord Stevenson (chairman also of the Pearson group, which owns 50% of *The Economist*), set up a small circle of friends to act as ambassadors for the festival. He chose about a dozen individuals, most of them wealthy, and insisted that their spouses be part of the group. Last year, one couple, Patricia and Robert Swannell, a vice-chairman of Schroder Salomon Smith Barney, which was then in the process of being swallowed up by Citigroup, gave £25,000 of Schroder PLC non-voting shares to the festival. Mr Swannell paid no capital-gains tax on the gift, which, with the tax rebate, cost him only £12,500. Mr Swannell also persuaded Citigroup to give a further £50,000, making it the festival's first principal sponsor. Aldeburgh has seen its income grow by more than 40% in the five years to 2001/02, and by far the biggest growth has been in gifts from private individuals.

In Italy, the law has been changed to allow the country's 13 most important opera houses and the orchestra and chorus of the Accademia Nazionale di Santa Cecilia in Rome to change their status from being state-owned organisations to private foundations. This, it is hoped, will help wean them off state subsidies, encourage them to make long-term contracts with large local companies and begin conventional fund-raising.

La Scala in Milan has been quick to take advantage of such changes, again with Mr Vilar's help. But even small opera houses, such as the venerable Teatro di San Carlo in Naples, Italy's oldest opera house, has a new director, Gioacchino Lanza Tomasi, who has signed up three companies that each give the theatre 500m lire ($230,000) a year and seven others that give 100m lire. In September, he hopes to start a development office for the first time.

Many Italian arts organisations hope that the government is taking notice of their efforts, and that, with an entrepreneurial right-wing party now in power, this expansion of private finance will be encouraged by the tax system. “We really need help in that area,” says La Scala's superintendent, Carlo Fontana.

A philanthropist's story

Opera is a very particular art form, but the way in which it is financed has lessons for all the arts in Europe. First, it is of limited interest, even in traditional opera-loving countries. Moreover, it is difficult to make opera much more accessible. Some opera houses have tried outside transmission, with big screens and plaza performances. Others have tried broadcasting it on television. Neither works terribly well, though the Metropolitan Opera's radio broadcasts are popular.

Worst of all for opera, its costs are very high. Even concert versions, with no staging, scenery or costumes, need soloists, orchestra and choruses. “Essentially,” says Elaine Padmore, the new opera director at Covent Garden, “grand opera is a 19th-century art form with 19th-century manning but 21st-century costs”. It needs dedication and vision, as well as deep pockets, if it is to continue being produced. For this reason, many lovers of the arts believe that opera is the miners' canary of the arts world. If opera continues to thrive, then so, probably, will the rest of the arts. If it cannot be saved, what else can?

Alberto Vilar does not see the world in such gloomy terms, yet he has an almost emergency-room dedication to the arts, and opera in particular. What makes him an unusual donor, in America as much as in Europe, is not just the enormous sums he gives but the focused way in which he channels his donations and demands public acknowledgment in return. His critics often accuse him of artistic meddling; he prefers to say that he supports productions he likes, and has no qualms in saying of others, “This is not for me.”

Asking for money

Mr Vilar concentrates his philanthropy in three broad areas: medicine, education and opera. He employs six people to sift through the requests for money, and each gift is preceded by a finely negotiated contract that sets out the terms of payment and the recognition that Mr Vilar is to receive in return. At the Royal Opera House it was the naming of the Vilar Floral Hall; other gifts carry other

acknowledgments. Mr Vilar's first offering to Glyndebourne Opera was $500,000 to sponsor this year's new production of “Fidelio”. In return, he insisted that the programme carry his photograph in colour and an unusually worded, page-long acknowledgment of his support “at an unprecedented level”. When this writer accompanied Mr Vilar to a night at the opera last April, he had with him a printer's proof of the Glyndebourne programme. During the interval, he spent some moments correcting it.

Alberto Vilar is a 60-year-old Cuban-American who went from Havana to Puerto Rico and then to mainland America to study when he was 19. He made his fortune—and it really is a fortune—managing institutional emerging-technology portfolios and private accounts. He was one of the first institutional buyers of Cisco, Ariba and eBay. His is an avant-garde part of the market, but Mr Vilar regards his Amerindo Technology Fund as a long hold. In 1999 it gained 249% before losing half its value again last year, which means his kind of business is not for the faint-hearted.

Mr Vilar refuses to disclose his net worth, but says he can give away $100m a year without feeling it. He has always been generous. As soon as he got his first job, which paid him $7,500 a year, he began giving small sums to help a classmate's two young sons. Now older and richer, he just gives away more. In the past four years, he has given just under $200m to opera alone, including $35m to the Met in New York, large amounts to La Scala and a new sub-title system in the back of each seat in the Musikverein auditorium in Vienna. He has already paid to have the same system installed at the Met, where it has been a great success. Next, Covent Garden will be testing it, also thanks to him.

Mr Vilar refuses to disclose his net worth, but says he can give away $100m a year without feeling it

Last year, Mr Vilar made three other big gifts to opera. He gave $10m to the Los Angeles Opera and $14m to the Mariinsky Theatre of St Petersburg, where he will fund two new operas or ballets a year over the next three years, as well as a young artists' programme and a much-needed management office in New York. By far his biggest gift was to the Kennedy Centre in Washington, DC, now run by Mr Kaiser. The $50m donation will bring the Mariinsky Theatre to Washington for a summer season every year for the next decade.

Many feel (though they won't say so in his hearing) that Mr Vilar is oiling his own ego when he demands a certain bowing and scraping for such gifts. But he sees himself as a model for younger donors, and is convinced that public acknowledgment serves a purpose. Only if other people know how much he gives, and see how his philanthropy is publicly thanked, he says, will they be persuaded—some might say shamed—into following suit.

“When you have your name on a building,” says Mr Vilar, “it says, ‘Here's a world-class person who is giving money, and he chose us.' Isn't that the message?” He continues: “People say, ‘Oh, rich guy, he's got to be pampered.' I think that's unfair. You've taken Finance 101. What is the positive impact of my gifts? More people see opera. Costs are down. Productions are better. More people are trained.” For Mr Vilar, who is divorced and has no children, charitable giving is a mission. The only reason gifts are anonymous these days, he says, is because givers don't want you to know how small their gifts are.

Leading by example

More and more European arts organisations are learning the American art of private patronage. When John Studzinski, the American deputy chairman of Morgan Stanley International, joined the core fund-raising group for the Tate Modern in London, he made a substantial donation of his own. The first gift the Tate obtained, for £3m, had been made on condition that it found at least one other comparable donor. “There is a range of fund-raising acumen in Britian, but many institutions are clueless about how to raise money from individuals and from trusts and foundations. These people need to be approached. You don't take them out to dinner or waste their time with glossy brochures. What they want is a two-page executive summary. What is the project? How is it going to be managed? Where's the money going?

“You would shocked at how many time-wasters there are out there,” says Mr Studzinski. “People are often naturally mean. Philanthropy is something that has to be culturally learned through role-models. Alberto Vilar is a very good player-coach for the rest of the world.”

Just how good can be seen from the many small steps that are being taken, every day, by the various arts organisations he has benefited around Europe. At Covent Garden, a second generation of donors is preparing to begin an endowment fund for the Royal Opera House which will be launched towards the end of this year. In Germany, Mr Vilar is about to announce a major gift to the Berlin Philharmonic

Orchestra and undertake a six-city tour, at the invitation of the German government, lecturing to audiences raised on arts subsidies why they should look with favour on enlightened philanthropy. And in Salzburg, where Mr Vilar spends his summer holidays with three tuxedos in his wardrobe (two black, one white), he is quietly championing a campaign by the presidents of the Salzburg Festival, the Musikverein and the Vienna Staatsoper to lobby the Austrian finance ministry for tax relief on charitable donations. Mrs Rabl-Stadler, Salzburg's president, laughs at the prospect. “He was very fierce. He said, ‘You musn't be complacent. You must go together and ask for the tax breaks.' We would never have thought of that. But we are all now waking up. What Mr Vilar is making us do is all so new.”

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Accounting

Shining a light on company accounts

Aug 16th 2001
From The Economist print edition

"Fair value" accounting for all financial assets and liabilities is on its way. Banks and companies hate the idea

THE bodies that lay out the rules on how firms must prepare their accounts are getting ready for a bruiser of a battle. Standard-setters in America and Britain believe ever more strongly in the principle that companies should "mark to market" all financial assets and liabilities—that is, record them at their current market value, rather than at historical cost, as happens now. It would entail sweeping changes to accounting. Over our dead bodies, reply plenty of big banks and companies.

The crusade for fair value began in earnest in 1997, when accounting bodies from America, Australia, Britain, Canada and New Zealand set up a working group to develop a proposal for international accounting standards on fair value. Last December the working group published its report and invited comments. The next step is for standard-setters to agree on, and enforce, fair-value rules. In a few years' time, companies may be obliged to transform the way in which they report their results.

For the accounting authorities, it is far more useful to measure assets and liabilities at fair value than at historic cost. It is also a chance, they feel, for the accounting profession to catch up with changes in the real world. Financial markets have become more volatile, meaning that asset and liability values constantly change. At the same time, financial markets have become more sophisticated, so that, usefully for fair-value proponents, prices are readily available for more financial assets than ever before.

Growth in the use of derivatives is part of the fair-value challenge. For years, derivatives contracts were kept "off-balance-sheet". Now, according to new rules from the International Accounting Standards Board (IASB), among others, derivatives must be marked to market and changes in those that are held for trading purposes put through the profit-and-loss account. But this compromise—applying fair value to some financial assets, such as derivatives, and not to others, for instance, bank loans—has created a mess, according to accounting regulators. Too many companies are finding ways to manipulate their reported results. The solution, the regulators believe, is to press bravely ahead and impose fair-value rules for all financial instruments.

Banks are horrified at the idea, chiefly because it will introduce more volatility into their earnings. That, in turn, could damage the price-earnings multiple that investors are willing to pay for their shares, raising banks' cost of capital.

In a mark-to-market system, the value of loans would fluctuate according to changes in interest rates. And banks would be forced to write down loans at once should the market judge their credit quality to be impaired. Worst of all, from the banks' point of view, these swings would have to be recognised in the profit-and-loss account for the year. France's biggest banks say that fair-value accounting would threaten the stability of entire banking systems. British banks argue that their role as providers of long-term finance to sectors with changeable credit ratings might be compromised.

Companies dislike the notion of fair value for similar reasons. The working group's proposal forbids the current practice of carrying forward gains and losses on hedges into the period of the transaction that they are designed to offset. At present, hedgers are allowed to match the transactions in one year, meaning smoother earnings. Taking away that ability, corporate treasurers say, might have the perverse

effect of discouraging risk management.

Banks and corporations can be expected to resist a change that would present their earnings in a less flattering light. But another of their objections carries greater weight with the accounting authorities. In the case of many financial assets and liabilities, assigning a fair value would be a tricky—and certainly subjective—process. Portfolios of shares are easy enough to value, as are loans that trade on a secondary loan market. Yet loans that are not actively traded account for some 60% of British banks' balance sheets, for instance, according to a Bank of England paper on fair value. Lending to smaller companies would be particularly hard to gauge. And how should demand deposits be valued, considering that banks do not know their maturity?

When judging fair values, therefore, auditors will need to rely to some extent on companies' and banks' internal models and estimates. In other words, instead of manipulating loan-loss provisions, or gains and losses on derivatives, banks and companies might be tempted simply to change their internal assumptions as a way to smooth earnings. Companies will always “massage” their earnings, an accounting regulator admits. “All we would probably be doing is shifting the places where people do it.”

Banking supervisors, for their part, sound warnings about fair value. The Basle committee on banking supervision last year complained that last-minute changes to the IASB's new rule on derivatives was rushed through without consulting the banks. The potential for greater volatility of earnings also worries regulators. They fear that fair value would lead to more frequent dips in banks' capital levels. The Bank of England points out that, in Denmark, which brought in an accounting system akin to fair value some years ago, one result has been that the volatility of banks' capital ratios has risen sharply. Yet volatility is real, the advocates of fair value reply, and dangerous if hidden.

David Tweedie, the head of the IASB, hopes that applying fair value to financial assets and liabilities will sharpen companies' attention to what they are doing with derivatives and other complex financial instruments. (He gives a warning, though, that moving to fair values could cause problems about how to display them in companies' profit-and-loss accounts: those need to be solved.) Supporters even hope, ambitiously, that fair value could throw up early signs of potential banking crises, as well as hasten their end. The savings-and-loans mess in America, for instance, was prolonged by easy accounting rules that allowed overly optimistic estimates of the industry's solvency.

Apostles of fair value will need to tread carefully if they are to realise their vision internationally. For a start, they need to make sure that their movement, started by five English-speaking countries, does not in future look as Anglo-Saxon in character as it does right now. Although the European Commission has decided that companies in the euro zone must report in line with IASB standards by 2005, Europe will still have the power to reject individual standards, including any on fair value. That would be a mistake. Gradually introduced and carefully explained, fair-value accounting should make for a more transparent and sound financial system.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The Bank of Japan loosens policy

Changing tack

Aug 16th 2001 | TOKYO
From The Economist print edition

Japan's central bank eases monetary policy. Too little, too late?

NOT so stubborn after all? After insisting for months that it wouldn't, the Bank of Japan eased monetary policy on August 14th. It was not just the mounting criticism both at home and abroad that the bank was not properly fighting Japan's persistent deflation that did the trick. Nor was it just that the stockmarkets had hit a near 16-year low the previous day. Months of political sniping, which has culminated in a small group from the ruling Liberal Democratic Party (LDP) calling for the laws governing the central bank to be revised, suggests that the central bank bowed, at least in part, to political pressure.

The group, led by a trio that includes Kozo Yamamoto, a former official from the finance ministry, and Yoshimi Watanabe, a younger party activist, wants to introduce formal inflation targets for the Bank of Japan. Mr Watanabe believes that the bank, which already looks at consumer prices when its sets its policy, should target asset prices as well. The group wants these revisions passed by the end of the year, arguing that the Bank of Japan, which is a government-authorised corporation, falls within the scope of plans to shake up public organisations. Less likely to pass, however, is a revision proposed by Yoichi Masuzoe, who used to be a popular commentator and is now the group's third leader. He wants to strip the bank of its independence, which it won three years ago, by giving the prime minister the power to hire and fire the governor.

In easing its stance, the Bank of Japan has targeted the quantity of money flowing through the economy, rather than interest rates, which can hardly go lower. It announced that it would increase by half its monthly purchases of government bonds, to ¥600 billion ($4.9 billion), paid for, in effect, by printing money. By buying bonds from banks, it wants to push up the reserves that commercial banks deposit with the central bank, from ¥5 trillion to ¥6 trillion. Not nearly enough, cry those who want a far more aggressive response to Japan's slump. Still, since the central bank started pumping money into the economy in March, Japan's monetary base has expanded. In July, it grew by 8% compared with a year earlier (see chart).

With more money in the system, banks ought, in theory, to be able to increase their lending to companies, which would then be able to invest more and so help the economy grow. The trouble is, first, that a slowing world economy offers no prop to crippled Japan. Second, without serious attempts at structural reform—cleaning up banks' bad debts and management, and enforcing corporate bankruptcies—monetary easing will have little effect, for banks will still prove unwilling to lend. Junichiro Koizumi, the prime minister, has often promised structural reform. Yet no co-ordinated programme is in sight that would tackle the government's unsustainable levels of debt, clean up the banks and allow monetary easing on a scale sufficient to offset the pain.

Despite all this, some of the new money could flow into stocks and property. A lot could find its way into dollar-denominated assets, especially if the Bank of Japan eases again in the autumn. A weakening yen would be good for exporters. It would also help ease deflation. But a weak-yen strategy brings risks. Nominal long-term interest rates could rise, and bond prices fall. Too steep a fall could perhaps spark a fresh crisis among the banks, since they own huge amounts of government bonds.

Nonetheless, the Bank of Japan seems at last to have woken up to the notion that a gently weakening yen might, after all, be in Japan's best interests. The question now is whether the realisation has come

just a little too late.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

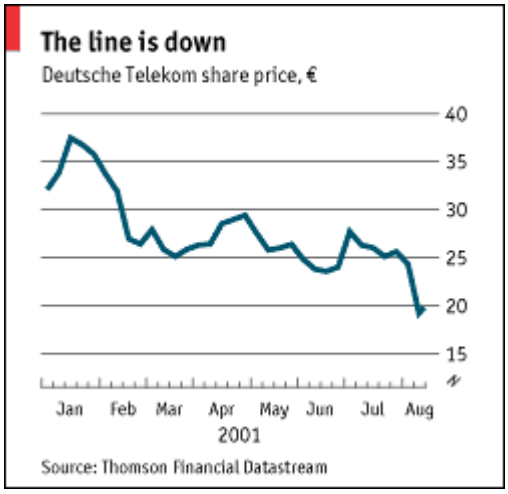
About sponsorship

Deutsche Telekom enraged

Storm in a telephone booth

Aug 16th 2001
From The Economist print edition

Deutsche Bank's surprise share sale enrages Deutsche Telekom



RON SOMMER, the chief executive of Deutsche Telekom, scolded Deutsche Bank with maximum publicity on August 12th, accusing it in *Der Spiegel* of a "serious professional error". His fury stemmed from a block sale of 44m Deutsche Telekom shares which the bank carried out on Tuesday August 7th, followed by an unfortunate 20% fall in the Telekom share price. Mr Sommer was incensed, because equity analysts at Deutsche Bank had, only a day before, confirmed Telekom as a "buy". He blamed the sudden sale—thought to be on behalf of Hutchison Whampoa, a Hong Kong conglomerate—for wiping close to *euro*20 billion ($18 billion) off Telekom's market value in the following few days.

Deutsche Bank maintains an embarrassed silence. Might a little sympathy perhaps be in order? Didn't the "buy" note from the analysts and the sale by the investment bankers prove that the "Chinese wall" supposed to exist between research departments and securities dealers was rock solid? That would be something to cherish in an age when global investment banks are under attack for too many internal conflicts of interest.

If only it were that simple. Rival investment bankers rush to point out that both activities—research and execution—must liaise with every bank's compliance department. In a case where a piece of research, about to be published, conflicts with a deal about to be done, one of them must be put on ice. At Deutsche Bank, did the compliance department at least consider that there was a potential conflict?

If it did, perhaps it judged the conflict to be marginal. Deutsche Bank's buy recommendation on Telekom shares was nothing new, and in fact it had been lowering its share-price forecast. It also gave warning that there could be large block sales of shares starting in September. That is when a six-month "lock-up" agreement expires, one that has constrained large shareholders from selling Telekom shares since the company's acquisition this year of VoiceStream, an American mobile operator.

Apparently, Deutsche Bank received the order early on the Tuesday morning—after the research was published. The block of 44m shares was barely 1% of Telekom's listed capital and would not normally have caused the share price to tumble so far. Traders at other firms say that Deutsche Bank handled the sale poorly, pretending there was heavy demand and fuelling expectations that potential buyers—at a discount of 2.5%—would see their shares rise in value.

By the end of Tuesday, Telekom's price had collapsed, and the knives were out for Deutsche Bank. By Friday, the incident had become a national scandal, with politicians calling for handouts of the government's own shares in Telekom to make up for shareholders' losses. The Hesse economics ministry, which regulates the Frankfurt exchange, and the federal securities supervisor have begun investigations. On August 14th Goldman Sachs, an investment bank, said that Telekom shares were now a "buy" and would go to *euro*30—about the same as Deutsche Bank's year-end prediction a week earlier. Goldman happens to own 29.9m Telekom shares, which it cannot start selling until September 1st.

Meanwhile, Mr Sommer was waiting for an explanation from Deutsche Bank, without which he threatened to take his business elsewhere. Still, even he has admitted that the two German giants are too big to avoid each other entirely.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Job losses on Wall Street

Wielding the axe

Aug 16th 2001 | NEW YORK
From The Economist print edition

Investment banks cut with a vengeance

THE 25,000 or so jobs cut by international investment banks so far this year have been presented as judicious pruning, though they were really more panicky than that. Privately, the banks admit that, if business does not pick up soon, then the serious axe-wielding will have to start, on Wall Street and in the City of London. Some banks would have liked to act more aggressively before now, but were restrained by a desire not to be first with the bad news. This week's announcement of 3,500 fresh job losses at Citigroup, followed immediately by reports that J.P. Morgan Chase is about to slash its investment-banking operations, may mark the point at which the blood really starts to flow.

As they decide whom to shed, executives face a tricky question. How quickly might they be able to hire workers in the event that business recovers faster than most people now dare hope? Merrill Lynch suffered badly after it fired workers, including technical staff, as financial markets stumbled in late 1998. When the markets rebounded soon after, not only were these workers loth to return, but employees at other firms would not join a firm that had shown itself to be a fickle employer.

Today, worries about “doing a Merrill” are fading fast. Jobless investment bankers are legion, though few are willing to admit to being “unemployed”. New York now has nearly as many “resting” bankers as actresses, though they do not yet have to wait at tables.

Senior executives are being fired at a rate not seen since 1990, says Laura Lofaro of Sterling Resources, a firm of head-hunters. They are paid so much that the revenues they bring in for the firm fall short of their pay—even before other overheads are taken into account.

Banks are also eagerly searching out ways to shed workers through increasing use of technology. Curiously, firms like Merrill Lynch may view electronic brokerage with greater enthusiasm now than at the height of the online investing fad.

Goldman Sachs has sought efficiencies by centralising its human-resources activities, cutting staff. It came as a shock to learn that Goldman Sachs had 300 human-resource professionals to fire. But when even personnel people are being canned, times really are hard.

The task facing investment banks is complicated by the consequences of their behaviour during the stockmarket boom of blessed memory. For instance, many bankers, notably in equity underwriting and analysis, were recruited on lucrative contracts with several years of guaranteed salary and bonus. Attempts to negotiate release from these guarantees are taking place—notably at CSFB, which handed out more of these contracts than most.

No investment-banking activity has been more idle this year than underwriting initial public offerings (IPOs). The bursting of the Internet bubble has scared off punters and, for another year at least, there are unlikely to be many IPO candidates with a record of profitability (now regarded as essential). Yet job losses in this business have been remarkably low. Could this have anything to do with the way regulators and law firms are courting disaffected and former employees who might be willing to dish the dirt on their bank's abuses of the IPO process?

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

World economy

Nowhere to hide

Aug 16th 2001
From The Economist print edition

Economies almost everywhere are looking sick

AMERICA's industrial production fell again in July, for the tenth consecutive month—the longest period of decline since 1983. Output is now more than 4% below its peak. However, America is not alone. Industrial production is falling around the world (see chart).

Although the decline in America's industrial output in July was less than many had feared, revised figures show a bigger drop in June than first estimated. New or revised figures also show that retail sales, inventories and construction were all weaker in June than assumed in the government's initial estimate that GDP grew at an annual rate of 0.7% in the second quarter. Revised figures due on August 29th are therefore likely to show that the economy was flat or even contracted in the quarter.

The euro area economies are also shaky. The Bundesbank estimated this week that Germany's GDP stagnated in the second quarter. Italy's GDP fell at an annual rate of 0.5%. Many economists reckon that growth in the euro area as a whole was close to zero in the second quarter.

What about Japan? Revised figures this week showed that GDP grew slightly in the first quarter, instead of the small fall initially reported. However, GDP almost certainly fell sharply in the second quarter, when industrial production dropped at an annual rate of 15%. Goldman Sachs estimates that figures for Japan's GDP (due to be published on September 7th) will show a fall at an annualised 5%.

Add together these guesses for growth in America, the euro area and Japan, and the combined GDPs of the rich economies probably fell in the second quarter, for the first time since 1990. In the recession then, GDP for the OECD as a whole fell for just a single quarter. We may not be so lucky this time.

In 1990 growth remained relatively brisk in emerging economies, propping up exports from the rich world. This time, however, the emerging world is also in trouble, with industrial production tumbling by 10% or more over the past year in several East Asian economies. When America's Federal Reserve meets to set interest rates on August 21st, it will have more than the weakness of the American economy to worry about.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

A novel use for options theory

Fishy maths

Aug 16th 2001
From The Economist print edition

Putting a price on sustainable fishing

IF THEY were grateful types, Alaska salmon fishermen would feel their future was a little more secure, thanks to an equation first developed in 1973 for pricing financial options. The Marine Stewardship Council (MSC), a not-for-profit agency that campaigns for sustainable fishing, has given the Alaska salmon industry its stamp of approval, as it has the fishing of New Zealand hoki, Western Australia rock lobster, Burry Inlet cockles (in Wales) and Thames Blackwater herring. MSC certification ensures a certain standard of fishery and environmental management, which customers are said to value. For the fisherman, one long-term benefit of certification should be to cut the volatility of fish catches and, hence, prices. But how to put a value on it? Z/Yen, a London-based “risk/reward” consultancy, suggests applying the Black-Scholes formula, variations of which are widely used for pricing financial (and stock) options.

The price history of five types of Alaska salmon—sockeye, chum, coho, pink and chinook—shows considerable volatility over the past 30 years. For this exercise, it was assumed that MSC certification will reduce price volatility to, at best, the lowest of recent years.

The option prices implied by those two levels of volatility—what a reasonable person would expect to pay to hedge the price risk before and after certification—were calculated using the Black-Scholes formula and compared. The effect of certification appeared to cut the cost of hedging the price of sockeye salmon from 40 cents a pound of fish (currently on sale for $1.55 a pound) to 29 cents. For other salmon types the price difference varied from 21 cents to 3.5 cents a pound, depending on the level and the recent volatility of the price of the fish. According to Z/Yen's calculations, the implied saving is more than $1m a year. That is 50 times higher than the cost to the Alaska salmon industry of MSC certification—$100,000 every five years.

As every option trader knows, though, Black-Scholes, or any other option formula, depends on your own forecast of volatility. To test the theory, predictions will need to be replaced, after a few years of certification experience, with actual data on volatility. Better hope that gluts of farmed salmon, oil spills or even nausea brought on by calculating delta hedging at sea don't spoil the fun first.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economics focus

Europe's scrap-heap

Aug 16th 2001
From The Economist print edition

Two puzzles about European unemployment: why, on average, is it so uncomfortably high, and why have individual economies' rates diverged?

UNEMPLOYMENT in Europe has fallen now for six years in a row. France, Spain, Britain, the Netherlands and Ireland are all at, or near, a two-decade low. Yet this is no occasion to break out the champagne, for European unemployment still averages a hefty 8.3%, almost twice the rate in America, and that after an unusually prosperous decade. Is this really the best that Europe can do?

Why Europe appears cursed with high unemployment in both good times and bad has vexed economists for more than 20 years. Recently, however, a loose consensus has formed about which factors drive unemployment, though not about their relative magnitudes. A series of recent papers* by Olivier Blanchard and various co-authors provides a useful framework in which to summarise the current state of knowledge.

A series of “negative shocks”—notably, slowing productivity growth in the 1970s, followed by a period of high interest rates in the 1980s—largely explain rising levels of European unemployment up until the mid-1980s. When productivity slows, the story goes, workers do not immediately react, continuing instead to demand wage increases in line with the old rate of productivity growth. When wages are therefore too high, two things happen. First, profits are squeezed, so firms cut jobs and switch to more capital-intensive production, increasing unemployment. Second, since costs are higher, firms not only use less labour relative to capital, but also cut investment. In the long run, this further reduces the demand for labour, because firms have less machinery and equipment to operate.

Negative real interest rates during part of the 1970s softened this second effect on unemployment, because firms did not cut investment, and therefore employment, by as much as they otherwise would have done. But some of the unemployment probably shifted into the 1980s, when interest rates rose sharply.

Two developments in the mid-1980s, however, threw a wrench into this “shocks-based” story. First, high unemployment persisted into the early 1990s for much of Europe yet, second, unemployment rates started to diverge. Some countries, for instance, Ireland and the Netherlands, brought unemployment down to extremely low levels. Others, notably Spain, withered under unemployment rates of over 20%. This prompted economists to begin looking to labour-market institutions to help explain cross-country differences in unemployment.

The secrets of success

At 1.8%, the Netherlands today has the lowest unemployment rate in the euro area. It was not always thus. In 1984, Dutch unemployment stood at 9.3%, just about average for Europe. At around this time, wages fell sharply relative to productivity, and firms responded by increasing their use of labour relative to capital. That is the superficial explanation of the Netherlands' success; the deeper question is, what led to this wage moderation? Mr Blanchard argues that the secret was the Wassenaar agreement of 1982 between unions, business and government. In it, unions agreed to limit wage demands in exchange for more generous financing of early retirement and a shorter work-week.

Still, excessive wage pressure cannot by itself explain high unemployment elsewhere. For one thing, wages moderated all over Europe. By the late 1980s, wages were back in line with productivity in Germany, France, Spain and Italy, and they have remained there since. Despite this, the ratio of labour

to capital did not recover in these countries, shifting instead to a new, lower level.

Perhaps other labour-market institutions are at work that may not directly increase the equilibrium unemployment rate (as excessive wages do, for instance), but may nonetheless influence the speed at which an economy can return to its equilibrium rate following a negative shock. Laws designed to protect employees against easy firing offer an example. In themselves, such laws have no clear implications for the unemployment rate. They do, however, increase the average time a worker spends in unemployment. Why? They make it difficult for firms to fire workers, so firms hesitate to hire them in the first place, strengthening the hand of workers who already have jobs. Fewer workers become unemployed, but those unlucky few are also less likely to find a job. Compare Portugal and America. Both countries have had similar unemployment rates over the past 15 years (respectively, 4.2% and 4.5% today), yet trips through the unemployment pool are far less common, and far more protracted, in Portugal, where worker-protection laws are much stricter.

In theory, such laws do not imply a higher equilibrium rate of unemployment. But when firms are hit with, say, a fall in productivity and are forced to fire employees, laid-off workers have a more difficult time finding jobs. The result is that it will take a regulated labour market much longer to get back to its equilibrium unemployment rate after a shock.

A sharp slowdown in the world economy may be about to deliver to Europe its next big shock. Does this mean another decade of rising unemployment? Recent labour-market reforms leave Europe slightly better prepared this time around. Since the introduction of fixed-term labour contracts in France, Spain and Italy, unemployment has declined—for instance, from 24.1% in Spain in 1994 to 12.8% today. Yet this was a half-hearted reform, designed to make hiring easier with the least amount of disruption to "insiders"—those with stable jobs already. Europe will need far more sweeping reforms of its labour-market institutions if it wishes to be rid of the threat of double-digit unemployment.

"The Economics of Unemployment. Shocks, Institutions and Interactions", by Olivier Blanchard. Lionel Robbins Lectures, London School of Economics, October 2000.

"What Lies Behind an Unemployment Rate: Comparing Portuguese and U.S. Labour Markets", by Olivier Blanchard and Pedro Portugal.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Stem cells

Potential for good?

Aug 16th 2001
From The Economist print edition

Stem-cell research is politically controversial. Few of its fruits, however, are yet ready for the clinic

Get article background

IMMORTALITY has always held a powerful grip on the popular imagination—even if it is to be found only at the bottom of a test tube. Once the preserve of scientific conferences, stem cells, the immortals that are the *fons et origo* of all other cells in a body, have become the stuff of primetime presidential addresses, excited headlines and confused cocktail party conversations. They are touted in the press as a cure for all sorts of ills, from Alzheimer's disease to diabetes. Their virtues are extolled by desperate patients parading before television cameras, lobbying politicians in America and Britain for policies to promote research on them.

The decision by President Bush to allow some federal funding for one particularly controversial type of stem-cell research has been hailed as a victory by some in America. But biologists know that the real battle is just beginning. Mother Nature, more than government money, is the biggest obstacle to stem-cell therapies. For all the publicity, stem cells are, for the most part, still stuck in the laboratory. Getting them to the patient is going to take not only much more research to demonstrate their safety and efficacy in treating disease, but also considerable commercial creativity to turn these laboratory marvels into profitable products. As Steven Goldman of Cornell Medical College in New York notes, no one in the field wants stem cells to go the same way as gene therapy, cursed by great expectations, and then lumbered with public disappointment when they fail to offer cures for all ailments.

Fountains of youth

Most cells in the body are like most people in life. They grow up, they reproduce once or twice, they do the same job every day, they wind down and then they die. Stem cells, on the other hand, are special: given the right conditions, they can reproduce themselves time and time again, a neat trick known as “self-renewal”, the molecular basis of which biologists have yet to work out.

In certain circumstances, other cells can also divide indefinitely—cancer cells, for example. But stem cells have another unusual property that sets them apart: given the right sort of biochemical push, they can move beyond their original immature state and develop into various different sorts of adult cell types.

Embryos hold the body's most versatile stem cells

Unsurprisingly, the body's most versatile stem cells are found in embryos; it is their job to produce the hundreds of different cell varieties that make up a mature organism. Their existence has long been known by researchers, and in some species they have already been put to good use. The menagerie of genetically modified mice which now serve as valuable models for human diseases is largely the result of laboratory tinkering with embryonic stem (ES) cells.

In 1998, two American groups announced that they had managed to create human embryonic stem-cell “lines”—that is, cells that behave in reproducible ways and can be grown time and again in a test tube

without too many surprises. These early movers have since been joined by half-a-dozen academic centres and biotechnology companies.

In all, Mr Bush's advisers reckon that there are 60 human embryonic stem-cell lines in the world. The president has agreed to allow federal-government funding for research on these existing lines, but not on newly created ones. In practice, however, notes one of the pioneers, John Gearhart of Johns Hopkins University in Baltimore, there are far fewer than 60 useful lines available to researchers. Some existing lines are hard to grow; some are ill-characterised; some are tied up in patent paperwork that limits their use.

Mr Bush's failure to endorse research into generating or manipulating novel human ES cell lines is a concession to religious conservatives who object to the destruction of human life, even at such an early stage. While supporters of the technology point out that the embryos used in such research are left over from *in vitro* fertilisation, and are otherwise bound for the bin, the fact remains that embryos are destroyed in the production of ES cells.

The process is fairly straightforward: at five or six days old, embryos consist of two cell types: an outer layer that will go on to form the placenta, and up to 200 cells in an inner mass, that will become the organism, and which are the source of stem cells. Once the inner cells have been isolated, they cannot regenerate the outer layer, and have therefore lost their chance of life outside the laboratory. Left in a test tube, however, with the right mix of biochemical growth factors and a few other treats, they will turn into “pluripotent”ES cells—that is, cells that can develop into a wide variety of specialised tissue types.

However, as Benjamin Reubinoff, of Hadassah University Hospital in Jerusalem, points out, the work only gets harder after that. The first problem is the tendency of ES cells to throw off their original uncommitted state and settle down to becoming specific cell types. That is not surprising, given that this is what they will do naturally as an embryo develops—and it is no bad thing, since the presence of free-wheeling embryonic stem cells in a later fetus, or indeed in fully fledged offspring, can cause tumours known as teratomas. But the result can be difficulty in cultivating the large numbers of the cells needed for experiments.

Dr Reubinoff and his colleagues in Australia, Singapore and the Netherlands have therefore been busy identifying the growth factors and genes that appear to be involved in the differentiation process. And such information will come in handy when dealing with the second technical problem: how to push human ES cells into becoming pure populations of, say, dopamine-producing nerve cells to treat Parkinson's disease (which is associated with a lack of this particular brain chemical).

Researchers are surprised and delighted when they produce cell cultures of potential clinical relevance

At the moment, researchers have little control over what sort of cells their human ES cell cultures become, and are delighted when something of potential clinical relevance turns up. In this month's issue of *Diabetes*, Suheir Assady and her colleagues at the Israel Institute of Technology and Rambam Medical Centre in Haifa report that human ES cells can spontaneously yield special beta-cells, normally found in the islets of the pancreas, where they produce insulin. Dr Assady looks forward to the day when these beta-cells might be cultivated in large quantities for transplantation into diabetics whose own cells have given up. At the moment, such patients must wait for the perfection of techniques that transplant islets from dead donors, and keep injecting themselves with insulin in the meantime.

The main problem is that the desirable cells are awash in a sea of others, and are therefore difficult to isolate. There are molecular tricks that researchers can use to fish their targets out of this cellular ocean, but they would prefer to produced a pure population of a particular sort of cell in the first place. In part, this is because they need a great many cells in order to see whether they actually have an effect in the body. In part, it is to reduce the risk of contaminating cells slipping through, with undesirable side-effects. At Johns Hopkins, Dr Gearheart and his team have been injecting cultures made from human embryonic stem cells into monkeys, to assess these problems in more detail.

Safety obviously matters, but safe treatments must also be efficacious. Injections of cells grown from mouse ES cells have been shown to do some good in repairing heart damage, and dealing with diabetes, in mice. But there are few documented cases, as yet, of researchers putting human ES cell-derivatives through their paces in animal models of human disease. Dr Gearheart has been using neural cells from human ES cell cultures in mice with paralysed lower limbs, and has seen encouraging results. But the technology is years away from the clinic. That is not, however, an argument against debating policy on

stem cells now: as the fuss over genetically modified food shows, it may be better to thrash out the issues when the technology is still in its infancy, rather than wait until after it has been let loose.

Adult content

Just as controversial, in scientific circles at any rate, is the use of human adult stem cells. Adult stem cells differ from embryonic ones in three ways. First, they are not pluripotent—generally they can differentiate only into cell types found in the organ that contains them. Second, they have a limited ability to self-renew. Third, they are rare, which is one of the reasons it took so long to locate them in the first place.

For decades, the dogma was that stem cells are the stuff of youthful tissue, and that only certain organs, such as bone marrow, retain a population that has some ability to renew itself and differentiate into more specialised tissues. But almost ten years ago, neural stem cells were discovered deep in the adult brain. Since then, other stem cells have been found in the pancreas, liver, cartilage, muscle and skin.

Now, biologists are busy transplanting human adult stem cells, or their laboratory-grown derivatives, into a range of animal models to see how well they work. Where they get their cells depends largely on which organ they are studying. Derek Van der Kooy at the University of Toronto, for example, is looking at mutant mice with smaller and beadier eyes than normal, with a view to boosting their meagre complements of photoreceptor cells through transplantation. His replacement photoreceptors are grown from human retinal stem cells which, in turn, have been plucked from patches on the sides of the eyes of volunteers (with no harm done).

Another popular source is fetal material—for fetal stem cells have adult, rather than embryonic, characteristics. (An individual is regarded as changing from an embryo to a fetus after about 10 weeks of gestation.) For the past 13 years, Anders Bjorklund at the University of Lund, in Sweden, has been transplanting dopamine-producing nerve cells from aborted fetuses into patients with Parkinson's disease. While there have been no outright cures, a few of his patients have experienced some improvement. But it takes up to eight fetuses to yield enough cells for a graft, and even then, many of them are no longer up to the job of secreting dopamine.

What Dr Bjorklund would like is a steady supply of high-quality cells which could be delivered in standardised doses. He has therefore turned to harvesting and culturing fetal neural stem cells. He is not alone: a number of research groups in America are also hard at work, and with federal funding too, which has, curiously, escaped much of the wrath of religious conservatives in the recent furore over embryonic stem cells.

Other sources being mined for adult stem cells include blood from the umbilical cord, and cadavers. Ideally, though, doctors prefer to use a patient's own stem cells to avoid the risk of the body rejecting a foreign graft. This is little problem when they come from easily accessible tissues such as bone marrow and blood. The brain and the liver are trickier propositions. One possible solution is “therapeutic” cloning—the creation of a new embryo that is genetically identical to the patient in order to provide a source of stem cells. But apart from the huge technical difficulties associated with this process, many governments, America's included, are distinctly uncomfortable with the notion of cloning, and may decide to ban it.

A more likely prospect is to try to push adult stem cells from easily harvested sources into becoming pluripotent. The past two years have seen a flurry of papers showing that stem cells taken from, say, the brain, can develop into muscle or liver cells when transplanted back into experimental animals. The latest work, to be published in the September issue of *Nature Cell Biology* by Freda Miller and her colleagues at the Montreal Neurological Institute, shows that it is possible to achieve the same effect in a test tube—generating nerve, smooth muscle and fat tissue from stem cells isolated from rat skin.

Dr Miller's group has found similar stem cells in the human scalp; these can be induced to produce nerve-like cells, and might prove a useful source for transplantation. What causes this “transdifferentiation” is still unknown, and researchers are far from certain that it occurs in nature. One of the many mysteries of stem cells is why adult cells, so active in a test tube, do not rush to repair damaged organs when in the body. A better understanding of the growth factors which control differentiation might lead to drugs that could shake these sluggish cells into action.

Given the ratio of questions to answers in the stem-cell field, it is not surprising that little has yet made

its way into the clinic. One exception is the use of blood-forming stem cells taken from bone marrow and circulating blood. These are employed to treat certain cancers and metabolic disorders. Another is the use of experimentally manipulated cells that have some of the properties of stem cells, but are not the genuine article. Firms such as Layton Biosciences, in Sunnyvale, California, which is running clinical trials with stroke patients, are going down this path.

The biggest problem for all companies in the field, though, may be to find ways of making stem cells pay. Made-to-measure cell replacements, created through, say, therapeutic cloning, are the biological equivalent of *haute couture*: a terrific fit, but time-consuming and costly to produce. What firms are looking for is more *prêt-a-porter* technology: stem cells that can be grown *en masse* and put into patients without too much protest from their immune systems. Osiris Therapeutics, in Baltimore, believes it has come up with something like this—a “universal” stem cell, ie one that is not rejected by the host's immune system. This is now being tested for its ability to rebuild bone in patients whose jaws have been damaged by cancer. That, though, is still an exception. Stem cells may be fashionable with the media, but as far as medicine is concerned, an attractive collection has yet to strut down the catwalk and wow the critics.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Creutzfeldt-Jakob disease

Hopes of a cure

Aug 16th 2001
From The Economist print edition

Two old drugs may hold the key to treating Creutzfeldt-Jakob disease

IF TRUE, it will have a poetic quality. Stanley Prusiner, who invented the idea of “prions” and made it respectable in the teeth of opposition from other biologists, may have come up with a cure for the problem he identified. Prion diseases, once obscure, are now famous. That is because two new ones have emerged: bovine spongiform encephalopathy (mad-cow disease) and its human version, new-variant Creutzfeldt-Jakob disease (nvCJD). At the moment, prion diseases are incurable and lethal. But a paper in this week's *Proceedings of the National Academy of Sciences*, by Dr Prusiner and his colleagues at the University of California, San Francisco, holds the possibility of a treatment.

Before Dr Prusiner came along, CJD and its relatives were assumed to be viral diseases. According to the prion hypothesis, however, they are caused by misfolded proteins. That, in itself, is not remarkable. A protein's shape is linked to its function, so a misfolded protein frequently fails to work. The odd thing about prion diseases is that the misfolded protein in question somehow acts as a catalyst for other protein molecules of the same type to misfold in the same way. Thus the misfolding can spread inside an individual, and also from one individual to another, in a manner similar to a viral infection. The only protein known to behave this way in animals is found in the outer membranes of certain nerve cells. Animal prion diseases are therefore brain diseases.

The obvious treatment for prion diseases would be a chemical that prevented (and, ideally, reversed) the misfolding. Many laboratories are working along these lines, and several molecules that seem to do the trick in cell cultures have been identified. However, it is hard to get these molecules to work in animals because they are prevented from reaching their target by the “blood-brain barrier”, the brain's defence-mechanism against unwanted chemicals. Substances that cannot cross this barrier are unlikely to make effective treatments for a brain disease.

Dr Prusiner and his colleagues cut through this difficulty by restricting their investigation to drugs that are already used to treat brain diseases, and are therefore known to cross the barrier. Two of the molecules they studied—quinacrine (an old-fashioned antimalarial drug) and chlorpromazine (a treatment for schizophrenia)—were found to inhibit the formation of the misfolded protein in cultured cells, and also showed signs of clearing away protein that had already misfolded.

The researchers have conducted no animal studies but, nevertheless, their paper suggests that both drugs “are immediate candidates for the treatment of Creutzfeldt-Jakob disease and other prion diseases”. Indeed, this suggestion has already been put into practice by Bruce Miller, who also works at UCSF, and who plans clinical trials of the drugs in the autumn. Dr Miller has already treated two people suspected of suffering from nvCJD (which can be diagnosed with certainty only *post mortem*). One is said by her family (Dr Miller will not comment) to be a 20-year-old British woman. Beforehand, she was confined to a wheelchair. Now, she is reported to be able to walk unaided, and to have much improved co-ordination.

Whether the drugs will cure her remains to be seen. However, the inevitable fatality of nvCJD, and the established nature (and therefore known risks) of the drugs in question, have led the government of Britain, the country worst affected by nvCJD, to take unusual measures. The National CJD Surveillance Unit, which keeps an eye on the disease, will get in touch with the six other suspected victims of nvCJD who are still alive, to tell them of Dr Pruisner's results. It will be up to them and their doctors to decide whether to try the treatment.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Mediterranean archaeology

Butrint preserved

Aug 16th 2001 | SARANDA, ALBANIA
From The Economist print edition

Not long ago, Albania's archaeological sites were ill-kept or abandoned. Now they are helping to revive the economy

WHEN Aeneas was on his way to ancient Italy, he stopped at a settlement on the coast opposite the island of Corfu. There, according to Virgil, he saw before him “Troy in miniature”: a city where the king received him and his followers in a court of towers and spacious colonnades. The city was Butrint, founded according to legend by Helenus, the son of King Priam, after the fall of Troy but dating back to at least the 8th century BC.

Today, Butrint is re-emerging from the obscurity in which it has languished for much of the past millennium. But it remains, in the words of John Julius Norwich, a British scholar of Byzantium, “the least known, the least frequented and the least spoilt” of all the great classical sites of the Mediterranean. It owes that mainly to the fact that it sits in southern Albania. During the disagreeable regime of Enver Hoxha it had few visitors. Since Albania re-opened, Butrint has become the country's largest tourist destination. In 1996 it attracted 20,000 visitors. Then law and order collapsed in the wake of the country's disastrous pyramid schemes, and the visitors vanished. Today tourists are making a tentative return, and the figures this year are already close to their 1996 level.

The swell of visitors brings an opportunity and a threat. The opportunity is to create, on an undeveloped stretch of coast just north of Greece, a new tourism industry that can bring prosperity to one of Europe's poorest nations. The threat is that local greed, weak planning controls and powerful foreign investors will combine to create the common Mediterranean mess of badly built hotels, noise and pollution.

Aeneas and Mussolini

The outcome will depend on how well Albanians manage to work with the foreign archaeologists, aid agencies and do-gooders who have become involved. The main excavation of Butrint started in the 1920s when Mussolini, keen to pose as the new founder of Rome, sent an expedition to retrace Aeneas's footsteps. During the Hoxha years, little happened. Only in the early 1990s did a joint Albanian and British team start work in earnest again. They did so under the auspices of the Butrint Foundation, set up in 1993 by two British grandees: Lord Rothschild, a banker whose villa on the shores of Corfu looks across to Butrint, and Lord Sainsbury of Preston Candover, a supermarket magnate. The foundation, directed by Sir Patrick Fairweather, a former British ambassador to Albania and to Italy, and financed mainly by grants from David Packard, heir to America's Hewlett-Packard fortune, has been leading the attempt to ensure that Butrint's development is adequately financed and sensitively handled. Last year, the Albanian government and UNESCO, which has designated Butrint a World Heritage site, turned the sparsely inhabited land around it into a national park.

Butrint is really several cities, each piled one on top of the last. From the late classical period of 300-200 BC dates a beautifully preserved theatre, where today's Albanians stage events from beauty contests to folk festivals, and a surrounding wall built of immense blocks of stone. From the same period, another wall has survived on whose stones are inscriptions recording the names of the city's inhabitants.

By the end of that millennium, however, Butrint was in the hands of the Romans who smartened up the

theatre and installed (predictably) a new bath house by the ancient city wall. Along the opposite shores of the lake on which the settlement stands, the Roman equivalents of Lords Rothschild and Sainsbury built grand villas of their own: one, just starting to be excavated, may have belonged to Pomponius Atticus, a chum of Cicero's.

Among the most dramatic of the city's Roman remains is a vast palace, its floors covered with elaborate mosaics. Built in the 4th century AD, as the Roman empire was crumbling, the palace was squatted in for decades afterwards by fishermen who built huts on top of the mosaics.

However, Butrint revived: not just once, but several times. It was a Christian settlement in the 6th century, and its massive baptistery, one of the largest in the eastern Mediterranean after the baptistery of Hagia Sofia in Istanbul, still survives. It was also an outpost of the Venetian empire in the 15th century: a Venetian tower dominates the view of the site from a distance. And it was seized from the French in 1798 by Ali Pasha, an Albanian who entertained such intrepid visitors as Lord Byron and Edward Lear and built himself a fine triangular castle nearby.

Today, the site looks like one of those 18th-century etchings of romantic ruins. Trees have sprung up around the remains; lush wild flowers poke out of the stones; terrapins and water snakes splash about in the remnants of the bath house. But it is also being used as a training base by the Butrint Foundation, keen to teach young Albanians the pragmatic, hands-on traditions of British archaeology. And it is already visited daily by busloads of Albanian schoolchildren, who make the seven-hour drive along bumpy roads from Tirana, and by tourists, most of them British, who take the ferry from Corfu to the little Albanian port of Saranda.

How well Butrint survives tourist pressure will depend on collaboration between Richard Hodges, the foundation's scientific director and principal fund-raiser, and Auron Tare, head of the newly created national park. The foundation has drawn up a management plan, full of good ideas for involving local people and protecting the lovely vistas of mountains and sea. It has pleased Albanian archaeologists with a plan to dredge the silting channel that feeds fresh water into Lake Butrint, a wildlife haven, and it has pleased local villagers by persuading a Japanese philanthropist to build a new school.

But hungry developers are drooling at the thought of a new Corfu. The planners have flirted with various proposals for a casino, half a dozen golf courses and a bevy of hotels along the coast. The European Union is proposing to finance a road that at present looks alarmingly likely to run past the edge of the park. If Butrint and its surrounding region can grow prosperous but not polluted, the result could be a showpiece for using conservation and culture as engines for development. Even Aeneas might have balked at the challenge.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Books in brief

Secrets of the sea

Aug 16th 2001
From The Economist print edition

After decades of modern study, the sea is still a mystery

BOOKS IN BRIEF

DEBORAH CRAMER, an American oceanographer, uses a 2,000-mile (3,200-km) journey studying ocean fertility, from Woods Hole to Barbados, to tell the story of life in the depths of the Atlantic and how it is changing.

Most people have seen nothing of the Atlantic but its surface and its shores, yet Ms Cramer sees man's mark everywhere she goes, from the depleted Grand Banks cod fishery off Newfoundland to the dying beds of coral and sea urchins off the Caribbean. An ocean-going Rachel Carson, her message is predictably bleak.

Great Waters: An Atlantic Passage
By Deborah Cramer

Norton; 416 pages; $27.95

Buy it at
Amazon.com
Amazon.co.uk

EVERYONE knows that life on earth began in the sea. But Richard Ellis concentrates on those rare animals that, having successfully emerged from the ocean and adapted to terrestrial life, then returned to the sea re-acquiring all the characteristics necessary to aquatic life.

He also wonders whether some animals, including man, don't have a more recent aquatic history than most scientists believe: why did man lose his protective hairy covering if not because it would have slowed his movements in the sea; why is it that, along with penguins, *Homo sapiens* is the only animal with a perpendicular bipedal gait; why does an elephant have a snorkel-like trunk and why are his testicles not in the scrotum, like other land-living mammals, but retracted into the abdomen? No easy answers, but a great read.

Aquagenesis: The Origin and Evolution of Life in the Sea
By Richard Ellis

Viking (October); 320 pages; $25.95

Buy it at
Amazon.com
Amazon.co.uk

A WELL-PACED tour of man's efforts to dwell beneath the sea, from Alexander the Great's visit to the sea-bed in a glass barrel during the siege of Tyre in 332 BC via Jules Verne's Captain Nemo, Hans and Lotte Hass and Jacques Cousteau—the sea-going musketeer who brought the underwater world into our living rooms—to Buster Crabb who made a wartime career out of underwater bomb disposal and later disappeared in circumstances that have never been properly explained.

Interesting though the technology may be, Tim Ecott is more taken with the freedom that deep diving offers to those most obsessed, which is why his encounter with Umberto Pelizzari, a Sardinian diver who can hold his breath for more than seven minutes and has dived without oxygen to a depth of 150 metres, is the most interesting encounter in this lively and readable book.

Neutral Buoyancy: Adventures in a Liquid World
By Tim Ecott

Atlantic Monthly Press; 368 pages; $26.
Michael Joseph; £12.99

Buy it at
Amazon.com
Amazon.co.uk

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

History of ideas

Meeting in the middle

Aug 16th 2001
From The Economist print edition

ADAM SMITH and Marie-Jean-Antoine-Nicolas de Condorcet were two of the greatest minds of the European Enlightenment. The idea of bringing them together in a paired study is a happy one, for which Emma Rothschild, a historian of economic thought at Cambridge University, is to be congratulated. “Economic Sentiments” offers much that is informative and intriguing, exploring in detail the views of its heroes on topics often neglected in writing about them, including apprenticeship, famine, schooling, taxation.

Economic Sentiments: Adam Smith, Condorcet, and the Enlightenment
By Emma Rothschild

Harvard University Press; $45 and £30.95

Buy it at
Amazon.com
Amazon.co.uk

Though readers should not expect a full comparative portrait on the lines of Plutarch's parallel lives, Ms Rothschild does seek to show that Smith and Condorcet were more alike than is often supposed. Smith was socially less conservative and Condorcet politically more temperate than they are now typically imagined to be. The particulars of her case—Smith's sympathy for the poor and the weak, Condorcet's commitment to toleration and diversity—are firmly grounded, even where these alter popular, rather than scholarly, images.

This adjustment of view, however, is put to the service of a construction that is unhistorical. Explaining that her book is “also about the present”, Ms Rothschild hopes to show that the contemporary connection between “laisser-faire economic policy and political conservatism” did not exist in the days of Smith and Condorcet, when both men exemplified a proto-liberalism sensitive to social inequality—in keeping, she suggests, with the best inspiration of our own period. It was only the French Revolution which broke up a happy marriage between the market and moderate compassion, allowing conservatives like Edmund Burke or Friedrich Hayek to twist Smith's doctrines to their own ends. But 200 years later, the last baleful effects of that revolution and the reaction against it have faded. With the fall of communism, the coalition between laisser-faire and conservatism is coming apart, affording the congenial prospect of a revival of the social liberalism of the real Smith and Condorcet.

Politically, this is a familiar message: right and left at length conclusively discredited, a mild and moderate wisdom can now proceed along a Third Way, possessed of a social conscience but respectful of public opinion. Every period has its conformism. Yet the historical narrative to which Ms Rothschild appeals here is a fiction. Smith and Condorcet cannot be air-brushed into a joint emblem of polite, before-the-fall yet up-to-the-minute, Enlightenment. They were on the opposite side of too many fences.

Smith upheld the traditional family, never ventured any serious criticism of the British state, supported Pitt against Fox and repudiated the very notion of deliberate legal reform. Condorcet, utterly despising the English constitution, pioneered the idea of proportional representation, championed sexual equality, and voted both for the conviction of Louis XVI and for war against Pitt. Fuller portraits could not have side-stepped all this.

More fundamentally, the alliance between laisser-faire economics and conservative politics was not a misbegotten by-product of the French Revolution. Well before 1789, it was embodied in David Hume, the sceptical philosopher and staunchly Tory historian who was Smith's closest friend, and the legitimate object of Hayek's greatest admiration. There is little reason to think that this alliance is dissolving today.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Cultural radicals

Drinking deep

Aug 16th 2001
From The Economist print edition

GUY DEBORD was the founder and intellectual leader of the Situationist International, an activist group which began as a gathering of artists in the tradition of dadaism, surrealism and letterism—this last a small post-war offshoot of the Paris avant-garde that took its cue from Rimbaud and ranked poetry over politics. It ended, less than two decades later, as a militant vanguard which sought, unsuccessfully, to control the course of the uprising that sent shockwaves through France in May 1968.

Life was a drag for Debord

The Game of War: The Life and Death of Guy Debord
By Andrew Hussey

Jonathan Cape; 432 pages; £18.99

Buy it at
Amazon.com
Amazon.co.uk

The SI played a big part in inspiring and provoking the May events but was unable to channel the riots and demonstrations that followed towards the cultural and political revolution which Debord had envisaged. He was a many-sided figure—a womaniser, a film maker, an implacable enemy and an unreliable friend. Disappointed by the generation that followed him, bloated and decayed with alcohol poisoning, he ended his life in 1994 with a bullet through the heart.

Even before his suicide, Debord had become a cult figure whose writings and aphorisms were invoked by punk rockers, television pundits, academics and intellectuals, the owner of Manchester's Hacienda Club and student radicals from Japan. Among the many spin-offs which Debord's strange career produced were an art exhibition at the Pompidou Centre in Paris (which he hated and swore never to visit), a series of translations of “The Society of the Spectacle” and other of his key works into English, as well as a posthumous flood of polemical articles, biographical sketches, celebrations and denunciations. It is ironic that an activist best known for his fierce critique of the society of the spectacle—the alienating world of political and advertising images brought to us every day by the media—should have ended up as a trendy thinker whose ideas were invoked by devotees ranging from the editor of *Tel Quel* to the Sex Pistols.

Andrew Hussey's biographical study is carefully researched and based on probing interviews with Debord's two wives (who later dissociated themselves from the book) as well as old friends, comrades and drinking companions. He portrays the strengths and weaknesses of his lonely and defiant subject, avoiding both hagiography and undue dismissiveness. Debord emerges as a brilliant but fatally flawed political thinker and writer, a libertine and connoisseur of conspiracy, as well as something of a dandy whose literary and philosophical models were as various as Lautréamont, Bossuet, Heraclitus, Clausewitz, Pascal, Shelley, Villon, Omar Khayyam, Orson Welles and Machiavelli. A voracious reader, he had a sense of style that gave his broadsides an unusually precise and aphoristic quality which made them both widely accessible and seductively provocative. There was nothing turgid or honey-coated about Guy Debord. Mr Hussey's book leaves you wavering between admiration for an unusually incisive critic and distaste for an impossibly wilful and self-destructive man.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Philip Glass

Not all ravens are white

Aug 16th 2001
From The Economist print edition

A new opera explores travel fever and restlessness

THE music of Philip Glass is repetitious, everyone knows that. Not only are the repeated pulsing rhythmic patterns, melodic figures and chord progressions the hallmark of Mr Glass's style, but those same rhythms, melodies and minor-key chords reappear in piece after piece. The selection of Mr Glass as the featured composer at this summer's Lincoln Centre festival was not greeted with unanimous enthusiasm among New York critics wanting to move on. Ho hum, they sang in chorus, another opera with Robert Wilson, to say nothing of more of Mr Glass's film music and a reprise of an early minimalist classic, “Music in 12 Parts”.

Yet Mr Glass, who is surely one of the world's best known living classical composers, ought not to be so easily dismissed. Twenty-five years ago, he and Mr Wilson revolutionised contemporary opera with “Einstein on the Beach”, a five-hour epic of non-narrative theatre. Mr Glass's ingratiatingly hypnotic music and Mr Wilson's stunningly beautiful imagery brought an unforgettable incandescence to familiar objects such as trains, spaceships or, in a breathtaking minimalist triumph, a bed turned into a glowing bar of light that slowly tilts upright and is launched into space, accompanied by a flamboyant organ cadenza.

Since then, Messrs Glass and Wilson have not worked frequently together. However, “White Raven”, their new collaboration, shows that under the right conditions the two are made for each other and can still produce visionary opera like no others. “White Raven”, which was actually composed in 1991, was first staged in Lisbon three years ago. It was given its American premiere at New York's Lincoln Centre last month.

The piece was commissioned by the city of Lisbon to commemorate 500 years of Portuguese discovery, and has a loose plot, more or less following the voyages of Vasco da Gama to Africa and India. Its self-consciously surreal libretto by Luisa Costa Gomes includes arias in Portuguese and a spoken part in English for the elegantly reserved dancer, Lucinda Childs. She was in “Einstein” and here portrays a writer accompanied by two black ravens (don't ask). But the puzzles of the libretto seem to interest Mr Wilson less than how the performers look and move, and Mr Glass writes music less to fit particular words or dramatic exchanges than to create mood and atmosphere.

Vasco travels over the ocean and over the rainbow, where he meets Judy Garland and the Tinman, to say nothing of Miss Universe perched on the moon in a gorgeous light (the part was gorgeously sung by Janice Felty). Anything goes for Mr Wilson, who relies on visual instinct and on what is now a huge theatrical experience. Although little seen in Britain and still under-represented in America, Mr Wilson's theatre and opera productions are well-known in French- and German-speaking countries.

Mr Glass may not have taken many musical strides in “White Raven”, but he has taken a few. Some chords and tunes startle. More strikingly, the composer lulls listeners into thinking that little is changing, while subtly creating constant musical flux (just try counting out what seem to be regular metres). This confident subversion of what our ears expect is Mr Glass's secret for remaining fresh, and that freshness was expertly and sympathetically conveyed by the conducting of Dennis Russell Davies. If you do not worry unduly about the detailed meaning of the story (or those ravens), you will find in this opera a brilliant work about discovery. Both its seafaring topic and its shifting musical form speak directly to our restless desire for new worlds, then or now, real or imagined.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Literary criticism

Writing with nerves

Aug 16th 2001
From The Economist print edition

IN TERMS of the gap between worth and rewards, translators come somewhere near nurses and street-cleaners. Michael Hofmann, a poet and translator of German, accepts this sorry fact without approval or complaint. He acknowledges too—in fact he returns to the point often—that the best translations of poetry always fail on some level. But thanklessness and impossibility do not daunt him. He feels passionately about his work, and in this collection of review essays it shows.

Behind the Lines: Pieces on Writing and Pictures
By Michael Hofmann

Faber and Faber; 336 pages; £20

Buy it at Amazon.co.uk

In the opening piece on Wallace Stevens, Mr Hofmann cites the American poet's advice to read poetry "with one's nerves", and he writes criticism with his. The best articles here crackle with the kind of excitement that makes you want to read writers you would not have dreamed of touching, or re-read ones whose work you thought you knew. Half the 56 pieces are on poetry, the rest on plays and novels, with a few reviews of painting and film. German writing and art (19 pieces in all) form a core where Mr Hofmann shows special commitment and authority.

German-born in 1957 but English-raised since the age of four, he agrees with Bertolt Brecht, who warned the actors of the Berliner Ensemble before its London debut in 1956 that the English expect German art to be "dreadfully ponderous, slow, involved and pedestrian". But Mr Hofmann rises to the challenge of bringing German writers alive for English ears with a critical mixture of wit, malice and enthusiasm.

With barely a hiss, he lets air out of the reputation of Rainer Maria Rilke, defends Brecht against a foolish, vindictive biography, and both rebukes and defends Christa Wolf. Pieces on Gottfried Benn and Paul Celan explore the translator's craft, and there is a moving review of work by his father, Gert Hofmann, a novelist, radio playwright and teacher of German literature. The article on Wolfgang Koeppen, one of post-war Germany's most neglected novelists, will be a revelation to many.

It is too much nowadays to expect a collection like this to have an index. But we should have been told when and where the articles originally came out. The shorter stage and film reviews could have been dropped. All in all, though, "Behind the Lines" is a highly successful collection—a manifesto in its way for free trade in words and a blow against provincialism, wherever it's found.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Jim Corbett

Aug 16th 2001
From The Economist print edition

James Albert Corbett, a provider of sanctuary, died on August 2nd, aged 67

AP

AT THE trial of Jim Corbett the judge appeared to acknowledge that he was a respectable citizen. But in his summing up he told the jury, “Good motive is not a defence to intentional acts of crime.”

Mr Corbett had founded a movement that had helped many thousands of refugees from Central America to cross into the United States, evading border guards and providing them with shelter and food until they could manage on their own. But he argued that he was not disobeying American law. After the second world war, he said, the United States passed a law that it would not expel or return refugees to a country where they would face persecution. The prosecution offered a different interpretation of the law: it did not permit just any refugee, however threatened, to enter the United States as of right. And it excluded “economic” refugees who simply wanted a job in a rich country.

The trial attracted an audience far beyond the courthouse in Tucson, a town close to the Mexican border. At this time, 1986, two Central American countries in particular, El Salvador and Guatemala, were notorious for their brutality. Liberals in the United States were uneasy about the countries' death squads, armed, according to some reports, with American weapons. They believed the refugees were being kept out because the United States did not want to offend their governments. But were the refugees from Central America any less justified in leaving their hellholes than were East Germans trying to escape through the Berlin Wall? As for Jim Corbett, he likened his charges to slaves escaping from their masters in the American South in what was called the “underground railroad”.

The jury was sufficiently impressed to find Mr Corbett and two fellow defendants not guilty. Eight others were found guilty on charges connected with the case, but none was jailed. Afterwards Mr Corbett said he would continue helping refugees and was prepared to stand trial as often as was necessary. But he was never prosecuted again.

Philosopher and goat-keeper

Jim Corbett was middle-aged before he found his vocation as master of the new underground railroad. He had had a prosperous childhood, his father a lawyer, his mother a teacher, and spent much of his youth on a ranch in Wyoming. He won a scholarship to Harvard, where he studied philosophy. He taught at a number of minor universities, but found it difficult to settle. He had a yearning for the rural life. One of his ancestors, he said, was a Blackfoot Indian. He studied the husbandry of bees and goats, wrote a paper on “the goat cheese economy” and considered moving to a poor country to pass on his knowledge. Instead, in the early 1980s he was living in Tucson and, as he put it, “cowboyed and horse traded” along the border. He had cared little about Central America, he said. He had never been interested in border problems and had taken the border fence for granted.

A friend asked him if he could help a Salvadorian who had been arrested while trying to cross the border. Mr Corbett could not get the Salvadorian released, but learnt from him that thousands of Central Americans were making the long journey across Mexico in the hope of being admitted to the United States. Many were stopped at the border, and the police often caught those that got through. Mr Corbett and his wife Pat started to collect refugees and look after them in their flat in Tucson. When they could cram in no more, friends would make room in their homes. “None of us realised what we were getting into,” he recalled. Overcrowded homes were no solution. Mr Corbett, a Quaker, wrote to fellow Quakers

throughout the United States. Churches of other denominations offered, or were persuaded, to help. Quite quickly a network of support for refugees, the underground railroad, was established that reached every part of the United States and Canada. The Sanctuary Movement was born.

Why did Jim Corbett, happily married, father of three, suddenly take on this burden? In a long essay he sought to explain his reasons. It is not an easy read, but he seems to be saying that the idea of sanctuary is what unites humanity as one body. He makes references to philosophers he studied at Harvard, particularly John Locke and Rousseau and their ideas on freedom. There are nods towards various Geneva conventions and the Nuremberg trials, together with a look at the tradition of sanctuary. He came to believe in one church, whether it was run by a priest or a rabbi or whatever. To visit Central Americans in prison he dressed in a priest's clothes and called himself Padre Jaime.

Mr Corbett disclaimed having started anything new. The sanctuary movement had been around for more than 3,000 years, he said, strengthening or fading according to the demands of the time. As the countries south of the United States border have become less brutal, the movement has faded. In Europe, the widespread hostility to those seeking asylum from countries as far away as China and Afghanistan has touched some consciences, perhaps presaging another sanctuary movement. But a new Jim Corbett has yet to emerge to speak of the unity of humanity and such unpopular themes.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Overview

Aug 16th 2001
From The Economist print edition

America's industrial output fell by 0.1% in July, the tenth consecutive month of decline. Capacity utilisation dropped to its lowest since 1983. Producer-price inflation slowed to 1.5% in the year to July from 2.5% in June, led by the largest monthly drop in energy prices in 12 years. Retail sales (by value) were flat in July for the second month in a row. The dollar fell sharply against the euro and the yen after an IMF report said that America's current-account deficit raised the risk of a sharp dollar depreciation.

Inflation was mixed in the **euro area** in July, but the trend remains downward. Spain's inflation rate slowed to 3.9% in the year to July from 4.2% in June, while France's was unchanged at 2.1%. But Dutch inflation rose slightly to 4.6%. German consumers are proving less robust than their American counterparts: the volume of retail sales fell by 1.8% in June after a 1.4% fall in May.

The Bank of **Japan** announced a further easing of monetary policy this week. The Nikkei 225 rebounded sharply from a 16-year low on the news, rising by almost 4% in a day. Japan's GDP growth in the first quarter was revised up to 0.5% at an annual rate from an initial estimate of minus 0.8%.

Britain's consumer-price inflation fell to 1.6% in July. Underlying inflation, which excludes mortgage interest payments, fell to 2.2%. Meanwhile, the government's preferred measure of unemployment edged up to 5.0% in the three months to June.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Output, demand and jobs

Aug 16th 2001
From The Economist print edition

% change at annual rate

	GDP		The Economist poll GDP forecasts		Industrial production	Retail sales (volume)	Unemployment % rate	
	1 qtr	1 year	2001	2002	1 year	1 year	latest	year ago
Australia	+ 4.3	+ 2.1 Q1	+ 2.6	+ 4.0	– 1.4 Q1*	+ 0.7 Q2	6.9 Jul	6.1
Austria	+ 1.6	+ 2.2 Q1	+ 1.8	+ 2.3	– 3.6 May	– 1.5 Apr	3.8 Jul	3.6
Belgium	+ 1.8	+ 2.4 Q1	+ 2.1	+ 2.4	– 0.5 Jun*	– 3.4 May	11.1 Jul*	11.2
Britain	+ 1.0	+ 2.1 Q2	+ 2.2	+ 2.7	– 2.2 Jun	+ 6.0 Jul	5.0 Jun‡	5.5
Canada	+ 2.5	+ 2.6 Q1†	+ 2.2	+ 3.1	– 0.7 May	+ 3.6 May	7.0 Jul	6.8
Denmark	– 4.6	+ 1.0 Q1	+ 1.4	+ 2.1	+ 4.4 Jun	+ 3.0 Jun	5.2 Jun	5.4
France	+ 2.0	+ 2.7 Q1	+ 2.2	+ 2.4	+ 1.9 May	– 2.5 May	8.8 Jun	9.5
Germany	+ 1.5	+ 1.6 Q1	+ 1.2	+ 2.0	+ 1.1 Jun	+ 0.5 Jun	9.3 Jul	9.5
Italy	– 0.5**	+ 2.0 Q2	+ 2.0	+ 2.3	– 3.1 Jun	– 1.2 May	9.6 Apr	10.7
Japan	+ 0.5	+ 0.2 Q1	– 0.5	+ 0.7	– 8.7 Jun	– 1.0 May	4.9 Jun	4.7
Netherlands	+ 1.6	+ 1.5 Q2	+ 2.0	+ 2.8	+ 0.7 Jun	+ 1.5 Mar	1.8 Jun§	2.7
Spain	+ 4.1	+ 3.3 Q1	+ 2.7	+ 2.9	+ 2.6 Jun	na	12.8 Jun	14.2
Sweden	+ 2.4	+ 2.3 Q1	+ 2.2	+ 2.7	– 1.0 May	+ 1.9 May	4.2 Jun*	5.1
Switzerland	+ 7.4	+ 2.5 Q1	+ 1.7	+ 2.0	+ 5.1 Q1*	– 0.7 May	1.7 Jul*	1.8
United States	+ 0.7	+ 1.3 Q2	+ 1.6	+ 2.7	– 3.2 Jul	+ 2.5 Apr	4.5 Jul	4.0
Euro area	+ 2.0	+ 2.5 Q1	+ 1.9	+ 2.3	– 0.1 May	+ 0.5 May	8.3 Jun	8.9
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	– 0.4	+ 3.4 Q1	na	na	– 3.2 Jun	+ 4.2 Apr	9.3 Jun*	10.3
Greece	na	+ 2.52000	na	na	– 0.8 Mar*	+ 5.1 Mar	na	na
Iceland	na	+ 3.62000	na	na	+ 2.5 2000	na	1.5 Apr	1.5
Ireland	na	+12.1 Q4	na	na	+13.9 Jun*	+ 0.7 May	3.6 Jul	4.0
Luxembourg	na	+ 8.52000	na	na	– 1.6 Apr*†	+ 9.1 Jun	2.4 Jun	2.7
New Zealand	+ 0.9	+ 0.4 Q1	na	na	+ 0.9 Q1*	+ 7.2 Q2	5.2 Q2	6.1
Norway	+ 0.9	+ 0.3 Q1	na	na	– 0.1 Jun*	– 1.1 Jun	3.6 Q2	3.3
Portugal	– 0.3	+ 2.2 Q1	na	na	+ 5.1 Jun*	+ 6.4 Apr	4.2 Q1	4.4

*Not seasonally adjusted. †New series. ‡Mar-May; claimant count rate 3.2% in Jun. §Apr-Jun. **Corrected.

Text refers only to the first 16 countries listed

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Prices and wages

Aug 16th 2001
From The Economist print edition

% change at annual rate

	Consumer prices*			The Economist poll consumer prices forecast		Producer prices*			Wages/earnings		
	1 year		year ago	2001	2002	1 year		year ago	1 year		year ago
Australia	+ 6.0	Q2	+ 3.2	+ 3.9	+ 2.4	+ 5.6	Q2	+ 7.4	+ 3.7	Q2	+ 3.9
Austria	+ 2.8	Jun	+ 2.7	+ 2.5	+ 1.8	+ 1.9	Jul	+ 4.6	+ 2.7	Jun	+ 2.0
Belgium	+ 2.7	Jul	+ 2.8	+ 2.6	+ 2.0	+ 5.3	May	+ 8.6	+ 2.6	Q2	+ 2.2
Britain	+ 1.6	Jul	+ 3.3	+ 2.1	+ 2.4	+ 0.1	Jul	+ 2.7	+ 4.8	Jun	+ 4.1
Canada	+ 3.3	Jun	+ 2.9	+ 2.8	+ 2.1	+ 1.7	Jun	+ 5.7	+ 0.5	May	+ 3.2
Denmark	+ 2.4	Jul	+ 3.1	+ 2.4	+ 2.1	+ 2.7	Jul	+ 5.8	+ 3.8	Q1	+ 3.6
France	+ 2.1	Jul	+ 1.7	+ 1.8	+ 1.5	+ 2.3	Jun	+ 6.0	+ 4.3	Q1	+ 5.2
Germany	+ 2.6	Jul	+ 1.9	+ 2.7	+ 1.7	+ 2.2	Jul	+ 5.5	+ 1.8	May*	+ 2.1
Italy	+ 2.9	Jul	+ 2.6	+ 2.8	+ 2.0	+ 2.3	Jun	+ 6.9	+ 2.7	Jun*	+ 1.8
Japan	− 0.5	Jun	− 0.7	− 0.4	− 0.4	+ 0.8	Jul	− 0.4	+ 0.9	Jun	+ 2.8
Netherlands	+ 4.6	Jul	+ 2.8	+ 4.6	+ 2.7	+ 4.3	Jun	+ 8.8	+ 4.3	Jun	+ 3.2
Spain	+ 3.9	Jul	+ 3.6	+ 3.7	+ 2.8	+ 2.4	Jun	+ 5.8	+ 2.2	Q4	+ 2.4
Sweden	+ 2.9	Jul	+ 1.2	+ 2.3	+ 1.8	+ 2.2	Jun	+ 3.7	+ 2.7	May*	+ 1.9
Switzerland	+ 1.4	Jul	+ 1.9	+ 1.3	+ 1.3	+ 0.2	Jul	+ 2.9	+ 1.3	2000	+ 0.3
United States	+ 3.2	Jun	+ 3.7	+ 3.2	+ 2.2	+ 1.5	Jul	+ 4.3	+ 4.4	Jul	+ 3.6
Euro area	+ 3.0	Jun	+ 2.4	+ 2.8	+ 1.9	+ 3.3	Jun	+ 5.6	+ 2.6	Q1	+ 2.4
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 2.5	Jul	+ 3.7	na	na	+ 2.4	Jun	+ 8.6	+ 5.0	Q1*	+ 3.5
Greece	+ 3.9	Jun	+ 2.5	na	na	+ 5.1	Apr	+ 7.0	na		na
Iceland	+ 7.9	Aug	+ 4.7	na	na	+ 6.7	Jul	+ 3.6	+ 8.2	Jun	+ 7.6
Ireland	+ 4.8	Jul	+ 6.2	na	na	+ 3.0	Jun	+ 5.5	+ 6.4	Q4*	+ 7.3
Luxembourg	+ 2.9	Jun	+ 3.3	na	na	+ 1.1	May	+ 5.5	+ 7.7	Apr*	− 1.0
New Zealand	+ 3.2	Q2	+ 2.0	na	na	+ 7.8	Q1	+ 4.9	+ 1.8	Q1	+ 1.4
Norway	+ 2.7	Jul	+ 3.3	na	na	− 3.1	Jul	+ 6.4	+ 4.4	Q1*	+ 4.1
Portugal	+ 4.3	Jul	+ 3.2	na	na	+ 4.2	Jun	+16.2	+ 2.4	Apr*	na

*Not seasonally adjusted.

Text refers only to the first 16 countries listed

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Australia

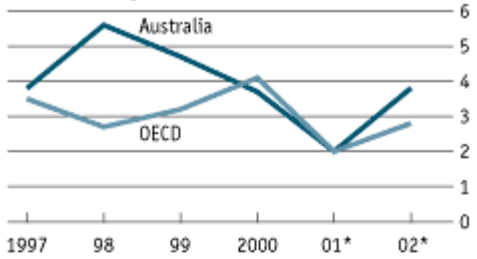
Aug 16th 2001
From The Economist print edition

In the nine years up to the middle of 2000, Australia enjoyed remarkable economic growth, averaging more than 4% a year. Unemployment fell, productivity growth increased, and inflation was low. The economy slowed sharply in the fourth quarter of 2000, under the weight of higher world energy prices and a slowing American economy. However, the OECD says in its latest survey of the economy that the slowdown should be short-lived—although that depends in part on America. Tax cuts should help to support demand, and low inflation has given the Reserve Bank room to cut interest rates. The OECD lauds tax reforms that began to take effect last year, to broaden the indirect-tax base and to reduce high effective marginal rates of income tax. The Paris-based economists also like the look of recent labour-market reforms.

Australia

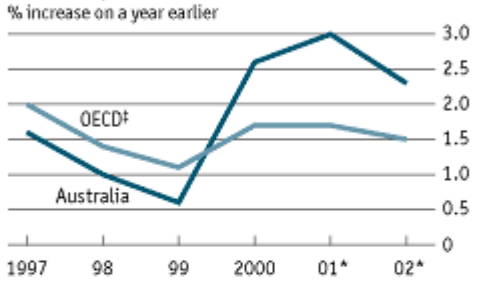
GDP

% increase on a year earlier



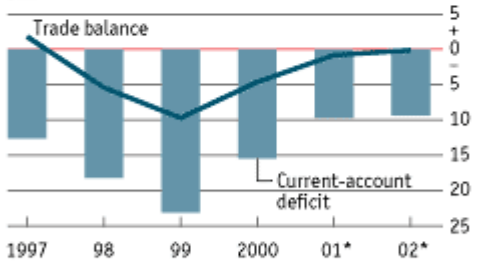
Consumer prices†

% increase on a year earlier



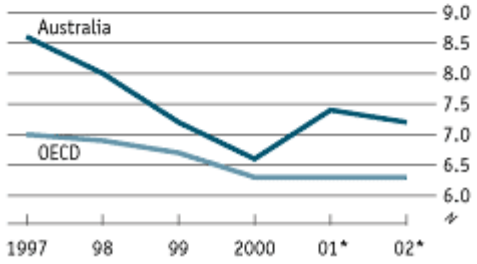
Balance of payments

$bn



Unemployment

as % of labour force



*Forecast †Private-consumption deflator
‡Excluding Hungary, Mexico, Poland and Turkey

Source: OECD

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Money and interest rates

Aug 16th 2001
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Aug 15th 2001)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+15.8	+ 7.0	Jun	5.01	6.48	5.10	5.78	6.24	7.26
Britain	+ 6.7	+ 7.7	Jun	4.91	6.09	5.05	4.91	5.27	6.15
Canada	+10.5	+ 6.6	Jun	3.97	5.65	4.51	5.58	5.79	7.13
Denmark	+ 3.4	– 5.5	Jun	4.75	5.55	4.48	5.02	5.57	7.04
Japan	+ 8.7	+ 3.3	Jul	0.03	0.28	0.04	1.30	1.76	1.42
Sweden	+ 7.2	+ 5.0	Jun	4.25	4.04	4.44	5.02	5.28	5.20
Switzerland	nil	+ 3.6	Jun	3.15	3.43	3.19	3.22	3.89	4.02
United States	+ 1.6	+11.3	Jun	3.53	6.48	3.77	5.07	5.96	6.94‡
Euro area†	+ 4.2	+ 6.3	Jun	4.36	5.01	4.01	4.75	5.14	5.39

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. ‡ Aug 8th. Benchmarks: US 30-year 5.52%, Japan No.233 1.30%. Central bank rates: US fed funds 3.75%, ECB refinancing 4.50%, BOJ overnight call 0.01%, BOE repo 5.00%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, OM Fixed Income Exchange, Warburg Dillon Read, DRI-WEFA, Westpac, Thomson Financial Datastream. Rates cannot be construed as banks' offers.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The Economist commodity price index

Aug 16th 2001
From The Economist print edition

1995=100

	Aug 7th	Aug 14th*	% change on one month	% change on one year
Dollar index				
All items	68.4	68.8	– 2.2	– 4.3
Food	69.4	70.2	– 1.5	+ 1.4
Industrials				
All	67.1	67.0	– 3.1	–11.4
Nfa†	68.7	68.9	+ 0.7	+ 0.1
Metals	65.8	65.4	– 6.3	–19.4
Sterling index				
All items	76.1	74.3	– 6.2	– 1.2
Euro index				
All items	102.7	100.9	– 7.2	– 2.6
Yen index				
All items	90.1	89.2	– 4.8	+ 6.9
Gold				
$ per oz	266.45	274.50	+ 2.4	– 0.1
West Texas Intermediate				
$ per barrel	28.13	28.08	+11.1	–10.5

* Provisional. † Non-food agriculturals.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Stockmarkets

Aug 16th 2001
From The Economist print edition

Market indices

	Aug 15th	2001 high	2001 low	% change on one week	% change on record high	% change on Dec 31st 2000 in local currency	% change on Dec 31st 2000 in $ terms
Australia (All Ordinaries)	3,307.8	3,425.2	3,094.3	– 1.1	– 3.4	+ 4.9	– 0.6
Austria (ATX)	1,218.2§	1,245.8	1,052.2	– 0.1	–29.9	+13.5	+10.2
Belgium (Bel 20)	2,884.6	3,030.4	2,591.6	– 1.4	–21.7	– 4.6	– 7.4
Britain (FTSE 100)	5,461.6	6,334.5	5,275.7	– 0.3	–21.2	–12.2	–15.5
Canada (Toronto Composite)	7,532.7	9,348.4	7,415.5	– 1.6	–33.9	–15.7	–17.3
Denmark (KBX)	250.2**	294.3	234.7	– 1.4	–17.1	– 5.5	– 8.0
France (SBF 250)	3,177.3	3,820.2	3,084.7	– 1.1	–27.6	–15.8	–18.2
(CAC 40)	4,934.0	5,998.5	4,773.2	– 1.0	–28.7	–16.7	–19.2
Germany (Xetra DAX)	5,455.4	6,795.1	5,388.0	– 2.8	–32.4	–15.2	–17.7
Italy (BCI)	1,589.8§	1,948.4	1,555.8	– 1.3	–27.2	–17.0	–19.5
Japan (Nikkei 225)	11,755.4	14,529.4	11,477.6	– 3.4	–69.8	–14.7	–18.8
(Topix)	1,194.3	1,441.0	1,162.0	– 1.9	–58.6	– 7.0	–11.4
Netherlands (AEX)	532.7	642.3	518.3	– 1.5	–24.1	–16.5	–18.9
Spain (Madrid SE)	824.0§	963.9	798.6	– 0.2	–28.1	– 6.4	– 9.2
Sweden (Affarsvarlden Gen)	224.4	293.1	217.2	– 1.5	–43.9	–19.2	–24.8
Switzerland (Swiss Market)	6,774.2	8,135.4	6,574.0	– 1.5	–19.5	–16.7	–19.0
United States (DJIA)	10,346.0	11,337.9	9,389.5	+ 0.5	–11.7	– 4.1	– 4.1
(S&P 500)	1,178.0	1,373.7	1,103.3	– 0.5	–22.9	–10.8	–10.8
(Nasdaq Comp)	1,918.9	2,859.2	1,638.8	– 2.4	–62.0	–22.3	–22.3
Europe (FTSE Eurotop 300)*	1,297.3	1,545.5	1,279.0	– 1.9	–23.9	–15.4	–17.9
Euro area (FTSE Ebloc 100)*	1,153.7	1,404.1	1,135.7	– 1.7	–25.6	–17.1	–19.6
World (MSCI)†	1,059.1	1,249.2	1,014.6	+ 0.3	–26.9	na	–13.3
World bond market (Salomon)‡	448.2	447.8	420.6	+ 2.7	– 2.5	na	+ 0.9

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms. ‡Salomon Smith Barney World Government Bond Index, total return, in dollar terms. **New index. §August 14th.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Trade, exchange rates and budgets

Aug 16th 2001
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current account $bn latest 12 mths		The Economist poll % of GDP, forecast 2001	2002	Exchange rate trade-weighted† Aug 15th	year ago	Currency units per $ Aug 15th	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2001‡
Australia	− 0.1	Jun	− 12.9	Q1	− 2.9	− 3.1	72.6	78.0	1.90	1.70	2.73	1.73	1.58	0.1
Austria	− 5.6	Apr	− 4.3	Jun	− 2.3	− 2.2	100.4	99.8	15.1	15.1	21.7	13.8	12.6	-0.6
Belgium	+ 10.6	Jun	+ 11.2	Mar	+ 4.3	+ 4.5	99.3	98.3	44.3	44.3	63.7	40.3	36.9	0.7
Britain	− 44.0	May	− 19.2	Q1	− 1.8	− 2.1	104.2	107.4	0.70	0.67	–	0.63	0.58	1.2
Canada	+ 48.2	May	+ 22.2	Q1	+ 3.1	+ 2.4	78.3	80.5	1.53	1.48	2.20	1.40	1.28	2.6
Denmark	+ 6.9	Jun	+ 4.5	Jun	+ 1.4	+ 1.4	102.6	100.2	8.17	8.18	11.7	7.44	6.81	2.9
France	− 0.2	May	+ 14.0	May	+ 1.6	+ 1.6	102.0	101.0	7.20	7.20	10.4	6.56	6.00	-0.5
Germany	+ 57.2	Jun	− 21.8	Jun	− 1.0	− 0.8	99.0	97.7	2.15	2.15	3.09	1.96	1.79	-1.7
Italy	+ 3.3	May	− 4.9	May	− 0.3	− 0.2	72.8	72.1	2,125	2,124	3,056	1,936	1,772	-1.3
Japan	+ 90.4	Jun	+ 96.3	Jun	+ 2.2	+ 2.1	139.6	153.1	120	109	172	109	–	-6.3
Netherlands	+ 17.8	May	+ 16.0	Q1	+ 3.9	+ 3.9	98.3	97.1	2.42	2.42	3.48	2.20	2.02	1.3
Spain	− 38.2	May	− 15.9	Apr	− 2.8	− 2.3	74.4	73.7	183	183	263	166	152	nil
Sweden	+ 12.8	Jun	+ 5.6	Jun	+ 2.1	+ 2.3	76.0	82.7	10.14	9.22	14.6	9.24	8.46	3.6
Switzerland	+ 0.1	Jun	+ 28.3	Q1	+11.0	+10.8	109.0	104.7	1.67	1.71	2.40	1.52	1.39	na
United States	−455.5	May	−449.3	Q1	− 4.1	− 4.0	116.9	111.8	–	–	1.44	0.91	0.83	2.1
Euro area	− 1.2	May	− 30.6	May	− 0.2	− 0.1	79.6	78.1	1.10	1.10	1.58	–	0.92	-0.6
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 14.1	Jun	+ 8.9	May	na	na	78.5	76.6	6.91	6.52	9.94	6.30	5.76	5.3
Greece	− 7.5	Jan	− 7.7	Jan	na	na	57.6	57.6	396	370	570	361	330	nil
Iceland	− 0.4	Jun	− 0.9	Q1	na	na	na	na	103	79.7	148	93.9	85.9	2.4
Ireland	+ 28.3	May	− 1.3	Q1	na	na	88.1	86.4	0.92	0.86	1.32	0.83	0.76	4.5
Luxembourg	− 2.5	May	+ 1.2	Q1	na	na	99.3	98.3	46.9	44.3	67.5	42.7	39.1	3.6
New Zealand	nil	Jun	− 2.3	Q1	na	na	81.3	80.1	2.41	2.22	3.47	2.20	2.01	1.0
Norway	+ 28.0	Jul	+ 25.6	May	na	na	94.8	92.5	9.19	8.89	13.2	8.37	7.66	15.3
Portugal	− 13.7	May	− 9.6	May	na	na	89.6	88.7	233	220	335	212	194	-1.2

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †1990=100, Bank of England. ‡OECD estimate.

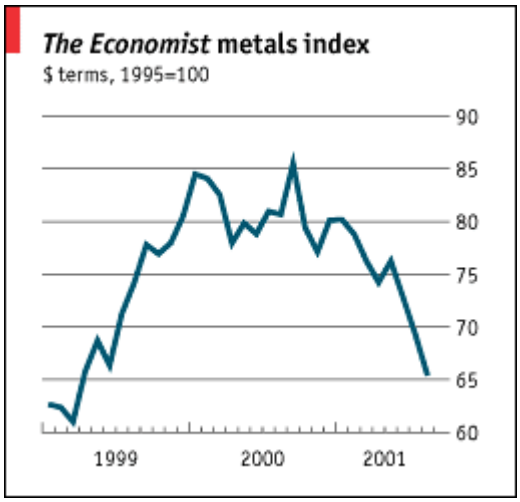
Text refers only to the first 16 countries listed

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

The Economist metals index

Aug 16th 2001
From The Economist print edition

The global economic slowdown and slack seasonal demand have battered metal prices. Our dollar-based index has fallen by 24% since last September. Copper, aluminium and nickel prices are at their lowest for more than two years. Tin and zinc prices have fallen to their lowest for more than a decade.



Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Overview

Aug 16th 2001
From The Economist print edition

Latin America's two biggest economies are in trouble. In Brazil, output fell by 1% in the second quarter, the first quarterly decline since the currency crisis of 1998. This reduced the year-on-year rate of growth to 0.8%, much lower than had been forecast. Mexico's GDP fell for the third consecutive quarter, leaving output flat on a year ago. Stockmarkets fell by almost 2% in both countries over the week.

Taiwan's exports fell by 28% in the year to July. Indonesia's GDP slowed to 3.5% in the year to the second quarter.

The **Warsaw** stockmarket index fell to a 32-month low as investors worried about a government austerity package and possible recession.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Business environment

Aug 16th 2001
From The Economist print edition

The Netherlands is expected to be the best place in the world to conduct business in the next five years, according to the Economist Intelligence Unit, a sister company of *The Economist*. A stable political environment and attractive policies towards foreign investment contribute to its healthy business climate. Eastern European countries are expected to improve their relative standing the most in the coming years.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Economy

Aug 16th 2001
From The Economist print edition

	% change on year earlier						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 7.8	Q2	+ 8.1	Jul	+ 1.5	Jul	+19.9	Jul	+20.5	2000	182.0	May
Hong Kong	+ 2.5	Q1	– 0.1	Q1	– 1.1	Jun	–12.1	Jun	+ 8.8	Q1	114.6	Jul
India	+ 5.7	Q3	+ 1.5	Jun	+ 3.4	Jun	– 5.3	Jun	– 2.3	Q1	40.9	Jul
Indonesia	+ 3.5	Q2	+ 4.5	Q4	+13.0	Jul	+24.8	Jun	+ 6.3	Q1	27.9	Jun
Malaysia	+ 3.2	Q1	– 9.9	Jun	+ 1.4	Jul	+15.3	Jun	+ 8.4	Q4	25.6	Jun
Philippines	+ 2.5	Q1	+ 2.0	May	+ 6.8	Jul	+ 6.1	May	+ 8.5	Apr	12.5	May
Singapore	– 0.9	Q2	–16.1	Jun	+ 1.2	Jun	+ 7.7	Jun	+22.6	Q2	76.0	May
South Korea	+ 3.7	Q1	– 2.7	Jun	+ 5.0	Jul	+14.0	Jul	+13.8	Jun	94.3	Jun
Taiwan	+ 1.1	Q1	–11.3	Jun	+ 0.1	Jul	+12.6	Jul	+12.0	Q1	109.1	Jun
Thailand	+ 1.8	Q1	+ 1.7	Jun	+ 2.2	Jul	+ 3.1	Jun	+ 6.9	Jun	31.0	Jun
Argentina	– 2.1	Q1	– 2.9	Jun	– 1.0	Jul	+ 2.3	Jun	– 9.0	Q1	21.1	Jun
Brazil	+ 0.8	Q2	– 1.4	Jun	+ 7.8	Jul	– 1.6	Jul	–26.8	Jun	37.3	Jun
Chile	+ 3.3	Q1	+ 6.3	Jun	+ 3.2	Jul	+ 1.7	Jun	– 1.4	Q1	14.3	Jun
Colombia	+ 1.7	Q1	– 2.6	Jun	+ 8.1	Jul	+ 1.5	May	– 0.7	Q1	9.5	Jul
Mexico	nil	Q2	– 3.9	Jun	+ 5.9	Jul	– 9.5	Jun	–17.8	Q1	40.8	Jun
Peru	– 2.3	Jun	+ 1.3	May	+ 2.2	Jul	– 0.2	Jun	– 1.7	Q1	8.3	May
Venezuela	+ 3.5	Q1	na		+13.0	Jul	+17.2	Q1‡	+12.5	Q1	10.5	Jun
Egypt	+ 6.5	2000†	+ 9.4	2000†	+ 2.2	May	– 9.9	Q1	– 0.2	Q1	13.0	Apr
Israel	+ 1.4	Q2	+ 0.3	Apr	+ 0.7	Jun	– 7.3	Jul	– 1.1	Q1	23.9	Jul
South Africa	+ 2.7	Q1	+ 3.1	Jun	+ 6.3	Jun	+ 4.1	Jun	+ 0.1	Q1	6.1	Jun
Turkey	– 1.9	Q1	–10.4	Jun	+56.3	Jul	–22.8	May	– 5.4	May	16.6	Jun
Czech Republic	+ 3.8	Q1	+ 3.7	Jun	+ 5.9	Jul	– 3.4	Jun	– 2.7	Q1	12.9	Jul
Hungary	+ 4.4	Q1	– 0.4	Jun	+ 9.4	Jul	– 2.4	Jun	– 1.7	Jun	11.9	Jul
Poland	+ 2.3	Q1	– 4.8	Jun	+ 6.2	Jun	–10.1	Jun	– 7.2	Jun	27.0	Jul
Russia	+ 4.9	Q1	+ 3.7	Jun	+22.2	Jul	+59.5	Jun	+45.9	Q1	31.3	Jun
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Pakistan	+ 5.6	2000†	+26.6	Mar	+ 3.6	May	– 1.5	Jul	– 1.1	2000†	1.3	May
Saudi Arabia	+ 4.5	2000§	na		– 0.2	May	+50.9	2000	+15.6	2000	17.1	Jun

*Excluding gold, except Singapore; IMF definition. †Year ending June. ‡New series § Economist Intelligence Unit estimate.

Text refers only to the first 25 countries listed

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; EIU; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; Russian Economic Trends.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.

Financial markets

Aug 16th 2001
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Aug 15th		Dec 31st 2000	
	Aug 15th	year ago	Aug 15th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	11.9	na	2,035.4	+2.6	−7.2	−7.2
Hong Kong	7.80	7.80	11.2	3.38	12,141.6	+1.5	−19.6	−19.6
India	47.1	45.6	67.8	6.96	3,331.9	+0.9	−16.1	−16.9
Indonesia	8,775	8,525	12,621	17.49	436.4	−1.4	+4.8	+15.6
Malaysia	3.80	3.80	5.47	3.30	656.3	−0.1	−3.4	−3.4
Philippines	51.2	44.8	73.7	10.69	1,325.2	+1.3	−11.3	−13.5
Singapore	1.75	1.72	2.51	2.31	1,644.7	+0.2	−14.6	−15.2
South Korea	1,279	1,115	1,840	4.84	577.1**	+2.0	+14.4	+13.1
Taiwan	34.6	31.1	49.7	3.85	4,623.1	+2.4	−2.5	−6.7
Thailand	44.9	40.9	64.5	3.13	317.8	−1.6	+18.0	+14.1
Argentina	1.00	1.00	1.44	21.76	326.9	+2.4	−21.6	−21.7
Brazil	2.50	1.80	3.60	19.00	13,672.3	−1.9	−12.4	−31.7
Chile	692	553	995	4.91*	5,686.6	+3.0	+16.8	−3.1
Colombia	2,293	2,176	3,298	12.53	990.5	+1.0	na	na
Mexico	9.10	9.33	13.1	7.37	6,542.2	−1.6	+15.7	+22.3
Peru	3.49	3.47	5.0	5.47	1,355.1	+0.6	+12.1	+13.3
Venezuela	729	689	1,049	14.79	6,948.5	−4.3	+2.3	−1.9
Egypt	4.25	3.49	6.11	9.00	5,694.3	+4.3	−25.7	−31.9
Israel	4.24	4.06	6.09	4.53	431.6	−2.0	−12.7	−16.7
South Africa	8.24	7.00	11.9	9.66	8,668.3	+1.7	+4.1	−4.4
Turkey	1,475,000	646,125	2,121,493	65.00	9,233.6	−3.6	−2.2	−55.5
Czech Republic	37.2	39.4	53.5	5.59	375.6	+4.8	−21.5	−20.6
Hungary	276	290	397	11.00	6,492.1	−1.3	−17.3	−15.4
Poland	4.26	4.37	6.13	15.31	12,500.2**	−2.2	−30.0	−32.0
Russia	29.4	27.7	42.2	25.00	194.0†	+1.9	+38.7	+35.4
EMF (MSCI)‡	1.00	1.00	1.44	na	305.7	+0.8	na	−8.4
EMBI+§	1.00	1.00	1.44	na	206.1	+0.2	na	+2.1

*Inflation adjusted. †In $ terms. ‡Emerging Markets Free. §J.P. Morgan Chase's Emerging Markets Bond Index Plus. **August 14th.

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; EIU; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; Russian Economic Trends.

Copyright © 2006 The Economist Newspaper and The Economist Group. All rights reserved.